annual report 2001

THE WILL TO BE

LAURENTIAN BANK
OF CANADA

OUR MISSION Laurentian Bank is a Canadian chartered bank that meets the banking and financial needs of individuals and businesses by offering superior personalized service and highly competitive products through its distribution networks and those of its various distribution partners and independent financial advisors. With a history of more than 150 years of financial strength and community involvement, Laurentian Bank seeks to accelerate its growth by expanding its geographic presence and by responding positively to the evolution of markets and customer needs and by providing wholesale private label value-added products to its retail partners. To provide its shareholders with a competitive return, the Bank relies on the profitability of its operations as well as on the competence, creativity, dedication and satisfaction of its personnel.

THE POWER of our clients

SINCE ROLLING OUT ITS NEW STRATEGY IN 1999, LAURENTIAN BANK HAS TAKEN THE TIME TO "REINVENT THE ROLE OF BANKER". IT HAS DEVELOPED INNOVATIVE SERVICES THAT ENHANCE ITS FLEXIBILITY AND SOLIDIFY ITS UNIQUE NATURE. FIRMLY SUPPORTED BY ITS PROGRESSIVE NEW STRUCTURE, LAURENTIAN BANK NOW CHANNELS THE RESOURCES AND TECHNOLOGY AT ITS COMMAND INTO EMPOWERING ITS CLIENTS TO TAKE ACTION.

2001 155th edition

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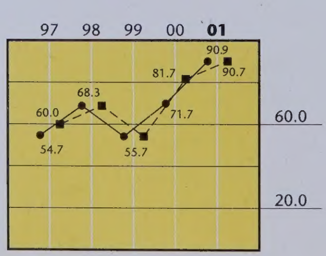
FINANCIAL highlights

As at October 31
(in millions of dollars, except per share amounts)

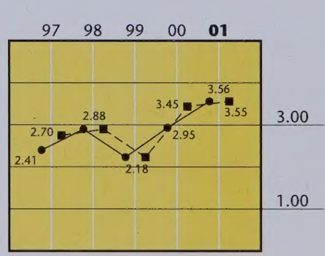
	2001	2000	1999
PER COMMON SHARE			
Net income before goodwil amortization			
basic	$ 3.58	$ 3.46	$ 2.20
fully diluted	$ 3.55	$ 3.45	$ 2.18
Net income after goodwill amortization			
basic	$ 3.40	$ 3.36	$ 2.10
fully diluted	$ 3.37	$ 3.35	$ 2.08
Dividends	$ 1.06	$ 0.94	$ 0.92
Book value	$ 27.08	$ 24.90	$ 22.48
Share price			
High	$ 33.25	$ 26.00	$ 29.75
Low	$ 24.00	$ 15.50	$ 20.00
Close	$ 27.41	$ 24.50	$ 20.30
Number of shares outstanding			
Average	22,710	20,154	20,151
End of period	22,868	20,154	20,154
Price/earnings ratio	8.1 x	7.3 x	9.7 x
Market to book value	101 %	98 %	90 %
Dividend yield	3.87 %	3.84 %	4.53 %
EARNINGS			
Total revenue[1]	$ 631.7	$ 491.7	$ 444.1
Net income before goodwill amortization	$ 94.8	$ 83.7	$ 57.7
Net income	$ 90.7	$ 81.7	$ 55.7
Net income available to common shareholders	$ 77.2	$ 67.7	$ 42.3
Non-interest income			
As a % of total revenue[1]	42.1 %	43.1 %	47.9 %
As a % of average assets	1.55 %	1.47 %	1.65 %
Return on average assets	0.53 %	0.57 %	0.43 %
Efficiency ratio			
Non-interest expenses as a % of total revenue[1]	70.5 %	71.9 %	77.6 %
Return on common shareholders' equity before goodwill amortization	13.8 %	14.8 %	10.1 %
BALANCE SHEETS ASSETS AND ASSETS UNDER ADMINISTRATION			
Balance sheets assets	$ 17,696	$ 14,741	$ 13,644
Cash resources and securities	$ 2,506	$ 1,669	$ 2,049
Loans and bankers' acceptances	$ 14,426	$ 12,392	$ 10,977
Deposits by individuals	$ 11,204	$ 10,066	$ 8,022
Assets under administration	$ 13,053	$ 14,208	$ 11,744
Cash resources and securities			
As a % of balance sheets assets	14.2 %	11.3 %	15.0 %
Deposits by individuals			
As a % of total deposits	77.2 %	82.2 %	76.6 %
As a % of loans and bankers' acceptances	77.7 %	81.2 %	73.1 %

NET INCOME
(in millions of dollars)



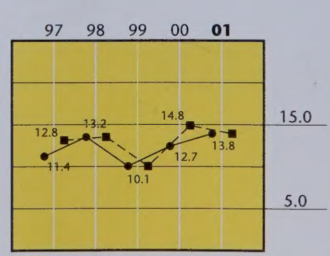
● EXCLUDING SPECIAL ITEMS
■ AS PER FINANCIAL STATEMENTS

DILUTED NET INCOME PER COMMON SHARE BEFORE GOODWILL AMORTIZATION
(in dollars)



● EXCLUDING SPECIAL ITEMS
■ AS PER FINANCIAL STATEMENTS

RETURN ON COMMON SHAREHOLDERS' EQUITY BEFORE GOODWILL AMORTIZATION
(as a percentage)



● EXCLUDING SPECIAL ITEMS
■ AS PER FINANCIAL STATEMENTS

As at October 31
(in millions of dollars, except per share amounts)

	2001	2000	1999
QUALITY OF ASSETS			
Net impaired loans			
As a % of loans and bankers' acceptances	0.2 %	0.1 %	0.0 %
Allowances for credit losses	$ 134	$ 116	$ 106
As a % of gross impaired loans	84 %	95 %	102 %
As a % of loans and bankers' acceptances	0.93 %	0.93 %	0.97 %
Geographic distribution of loans(2)			
Quebec	51 %	44 %	51 %
Ontario	32 %	39 %	35 %
Western Canada	17 %	17 %	14 %
Loan distribution(2)			
Personal	26 %	25 %	24 %
Residential mortages	52 %	51 %	52 %
Commercial mortgages	6 %	9%	10 %
Commercial and other	16 %	15 %	14 %
CMHC-insured mortgages			
As a % of residential mortgages	59 %	56 %	43 %
CAPITALIZATION			
Shareholders' equity, non-controlling interest in a subsidiary and debentures	$ 1,222	$ 1,009	$ 898
Tier 1 capital ratio	8.1 %	7.7 %	8.1 %
Total capital ratio	12.4 %	11.3 %	11.1 %
Common equity to risk-weighted assets	7.0 %	6.0 %	6.1 %
OTHER INFORMATION			
Number of full-time equivalent employees	3,884	3,481	3,236
Number of branches	230	204	203
Number of automated banking machines	360	315	326

As at October 31

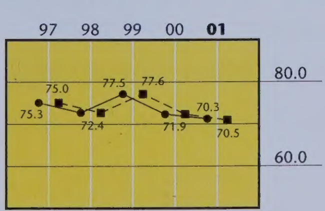
By region	**Quebec** (2001)	**Ontario** (2001)	**West** (2001)	**Total** (2001)	Total (2000)
ABMs	290	54	16	360	315
Branches	165	51	14	230	204
Point-of-sale Financing	3,225	2,285	1,150	6,660	5,698
Point-of-sale Terminals	1,891	432	51	2,374	1,327
Brokerage Offices	12	1	—	13	21
Business Service Centers	6	5	2	13	12

Independent Financial Advisors: 10,000
80% in Ontario and Western Canada
20% in Quebec

(1) *On a taxable equivalent basis.*

(2) *Excluding assets purchased under reverse repurchase agreements.*

EFFICIENCY RATIO
(as a percentage)

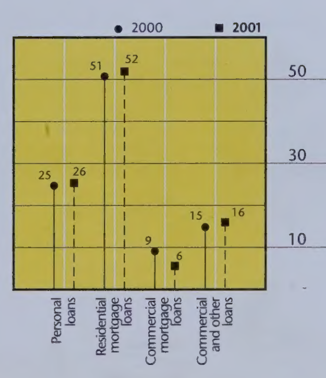


● EXCLUDING SPECIAL ITEMS
■ AS PER FINANCIAL STATEMENTS

BALANCE SHEETS ASSETS AND ASSETS UNDER ADMINISTRATION
(in billions of dollars)

● BALANCE SHEETS ASSETS
■ ASSETS UNDER ADMINISTRATION
▲ TOTAL

LOAN PORTFOLIO MIX
(as a percentage)



Message to shareholders

Laurentian Bank is very pleased with its performance in 2001, and with the progress it has made in meeting its strategic objectives. The financial results attest to the profitability of the Bank's business strategy and the initiatives adopted during the year, while reinforcing the Bank's commitment to reinventing the role of banker in a unique, innovative and flexible way.

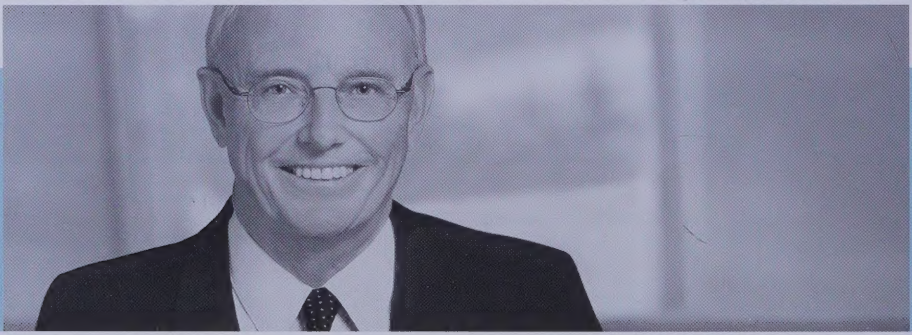
Throughout 2001, this determination has fostered the implementation, in its lines of business and corporate sectors, of a series of measures intended to bring the Bank's structure, advisors and offering of products and services closer to its customers. Consumers, entrepreneurs and independent financial advisors can now benefit from employees that are more attuned to their needs than ever, and that are even better equipped to serve them effectively and efficiently.

and highlight its competitive advantages. We have thus defined the following priorities that guide the Bank's actions and initiatives over the short and medium terms:

- Creating value for its shareholders;
- Accelerating the growth of its business niches and its preferred target markets;
- Enhancing the efficiency of its lines of business and services.

These closely linked priorities are the pillars of the Bank's business strategy and, beyond doubt, are the keys to its success, profitability and development. The results of 2001 provide an eloquent testimonial to this approach.

Jon K. Grant
Chairman of the Board



OUR MISSION, OUR PRIORITIES

The financial results and achievements of 2001 reflect the Bank's dedication to fulfilling its mission: to generate competitive returns for shareholders and to provide quality customer service.

Following the reform of the Canadian financial services sector, and in this challenging economic context, the Bank's mission is spurring it to double its efforts to consolidate

A PROFITABLE STRATEGY

For the year ended October 31, 2001, the Bank's core earnings (excluding goodwill amortization and special items described later in the Annual Report) stood at $95.0 million compared with $73.7 million in 2000. On the same basis, the diluted earnings per share were $3.56 in 2001, up from $2.95 in 2000, equal to a 21% increase.

On the same basis, the return on shareholders' equity was 13.8%, compared with 12.7% in 2000, amounting to a 1.1% increase. The book value of the Bank stock rose from $24.90 to $27.08, corresponding to growth of 8.8% during the 2001 fiscal year.

Moreover, the Bank's efficiency ratio (excluding special items) continues to improve: this key gage of progress achieved during the 2001 fiscal year evolved from 71.9% for the year ended October 31, 2000 to 70.3% in 2001.

EFFICIENT MEASURES

These results are nothing less than the tangible benefits of the Bank's business strategy, together with the initiatives adopted in the past few fiscal years and the achievements that crowned 2001.

HENRI-PAUL ROUSSEAU
PRESIDENT AND CHIEF EXECUTIVE OFFICER

Acquisitions

The cumulative positive effects of acquisitions carried out in previous years continue to strongly impact the Bank's results. Notably, the integration of new branches acquired from Scotiabank has generated the anticipated synergies, significantly contributing to the attainment of its objectives of enhancing efficiency, growth and profitability.

Thanks to the active participation of all its employees, the Bank has enjoyed a high level of retention of business acquired from these branches. The benefits of this major achievement are not limited to increased sales; the Bank has also extended its reach while enriching its expertise.

B2B Trust

The initial public offering of B2B Trust is undoubtedly one of the milestones of the 2001 fiscal year. Its success represents a remarkable achievement in a difficult stock market context. It is also an important gage of the quality and pertinence of B2B Trust's offering to independent financial advisors and non-bank financial institutions across Canada.

Reorganization

As part of its response to the adoption of the financial services sector reform bill, the Bank has continued to put in place measures that are directly linked to the attainment of one of its strategic objectives, that of preparing for the transition to a holding company.

Beyond doubt, the reorganization of the Bank's structure and activities is far more than a mere transitional measure. Above all, it reflects the fundamental concern that underlies all services and actions of Bank employees: developing a customer-centred organization that is better attuned to its customers' needs and expectations.

The new structure of Laurentian Bank comprises the following lines of business:

- Retail Banking and Visa, Corporate and Commercial Banking, these two business lines reflecting all the banking services, grouped under a unified leadership;
- B2B Trust and Agency Banking;
- Wealth Management and Brokerage.

We also believe that this orientation, disseminated throughout our organization, will spur an accelerated development of its lines of business. The new structure will also enable the Bank to create synergies that enhance both its profitability and its offering of products and services for all of its clienteles.

An attentive ally

No matter how advantageous and sophisticated, an offering of products and services must first be accessible. The Bank therefore plans to intensify its presence throughout Canada, both physically, through its branches and places of business, and virtually, by means of a wide array of electronic services accessible 24 hours a day. In this respect, 2001 was a year of significant progress.

BOARD OF DIRECTORS It is both with pride and regret that we announce that Ms. Jeannine Guillevin Wood has stepped down as chairman of the Board of Directors of the Bank, a position she held for nearly four years. She is the first woman to chair the Board of a Canadian Schedule I bank. An exceptional businesswoman, Ms. Guillevin Wood orchestrated the Bank's growth strategy and the implementation of its strategic orientation. She was replaced by Mr. Jon K. Grant, who has been a director since 1988. Mr. Grant is an external administrator, unrelated to management, as dictated by the policy adopted by the Bank since 1987 to ensure the independence of the Board in carrying out its management and shareholder responsibilities. The Board of Directors decided

The operations will therefore be maximized by better defining responsibilities in customer recruitment, product sales and management of customer relations; Bank customers will enjoy more attentive service that consistently meets their needs.

We are convinced that this customer-focussed orientation, bolstered by efficient business processes, will help make the Bank the principal supplier of financial services – the leading banker – for a growing number of customers.

By acquiring the Scotiabank branches, the Bank has consolidated its presence in the main urban centres of Quebec and in most of the outlying regions.

Already recognized as a leader in point-of-sale financing, the Bank continued to develop this activity throughout fiscal 2001 by means of strategic agreements. Partnerships

with intermediaries and corporations such as Canada Post Corporation are enabling us to intensify its presence nation-wide and enhance our offering of products and services.

- **Leading-edge tools**

To establish sustained and comprehensive business relations with its clientele, the Bank strives to combine accessibility and convenience of service. Versatile and flexible, its technology platform plays a critical role in this respect. The backbone of this platform, the data warehouse, was launched in fiscal 2001.

Customers and partners can already access either of the Bank's Websites, at their convenience, to carry out their financial transactions. The Bank is continuing to deploy and develop these electronic services to refine the quality of information available to users and to expand the range of available products and services.

In addition, the Bank signed an agreement with CGI, one of the largest North American companies in its field, to outsource the management of its information technology services. The consulting company's expertise will enable the Bank to preserve its edge in the highly competitive financial services market, and to continue developing value-added products to meet the needs of its subsidiaries and all of its customers.

EQUITABLE TREATMENT FOR ALL

The reform of the financial services sector, in particular the coming into effect of the new regulation on ownership of federally chartered financial institutions, has paved the way for 100% ownership of a bank with equity of less than $1 billion, including Laurentian Bank.

As a result, on October 2, 2001, the Board of Directors adopted a shareholder rights plan intended to promote fair treatment of shareholders in the event of a takeover bid for the Bank.

The Bank's Board of Directors believes that the 35-day waiting period prescribed under Canadian securities legislation is insufficient to evaluate an offer, examine other opportunities that could maximize value for shareholders and formulate enlightened recommendations to the shareholders. The shareholder rights plan lengthens this period, thus granting shareholders more time to examine any offer along with any other possibilities that may arise.

to reduce the number of directors from 18 to 15. The Board believes that this measure will enable each director to participate even more effectively in the Bank's activities and will enhance the efficiency of the decision-making process. During the year, two new directors – Ms. Christiane Germain and Ms. Veronica S. Maidman – joined the ranks of the Board members, which now includes four women. Not only was the Bank the first to elect a chairwoman of the Board of Directors, but we are proud to report that the Bank is again breaking new ground in this area. As such, women occupy 27% of the seats on the Bank's Board.

OUR COMMITMENT

Today, the Bank's strengths – the experience and expertise of its human resources, the quality and efficiency of its products and services, and the capacity and reach of its technological tools – constitute solid foundations that are fuelling sustained growth and that will provide renewed vigour over the next few years.

On the strength of these accomplishments, the Bank can now make a firm and enduring commitment to each of its customers. The Bank's determination to adopt a clearly defined customer orientation has translated into true added value in all of its products and services, tailored to its customers' expectations and needs.

Laurentian Bank has the will to be... accessible, dependable, and committed. In the coming years, its customer-centred orientation will guide the Bank's efforts to attain its strategic objectives along with its mission: to earn a competitive return for shareholders and to provide quality customer service.

In light of the results obtained in the past few years, and the dedication of all the Bank's employees, we are convinced that the Bank will efficiently fulfil this mission and, by placing its customers at the heart of its business strategy, further enhance our performance while pursuing its long-term development.

This commitment is manifested above all by the Bank employees, whose hard work and determination constitute the main foundations for our development and success. We thank them wholeheartedly. We would also like to thank our shareholders, partners and customers, whose confidence and loyalty are invaluable sources of motivation as we build our future day by day.

Jon K. Grant
Chairman of the Board

Henri-Paul Rousseau
President and Chief Executive Officer

PERFORMANCE and financial objectives

Laurentian Bank is very pleased with its performance in fiscal 2001. The Bank's growth strategy, the measures applied in recent years and the initiatives adopted in 2001 have all contributed to the attainment of these results. The growth of its lines of business and the deployment of B2B Trust have continued in a dynamic, sustained and profitable manner. On the strength of its increasingly solid human, material and financial resources, the Bank has the means to attain its strategic objectives.

INCREASE NET INCOME PER SHARE

Driven mainly by its growth strategy, the Bank has surpassed the objectives that it has set for the 2001 fiscal year, and has substantially increased its net income per common share.

2001 OBJECTIVES

$3.30 (basic)

$3.45 (basic before goodwill amortization)

2001 RESULTS

$3.40 (basic)

$3.58 (basic before goodwill amortization)

2002 OBJECTIVE

For the 2002 fiscal year, the Bank has set an objective of net income per common share of $3.85 (basic before goodwill amortization).

INCREASE TOTAL REVENUE

The acquisition of the Scotiabank branches and the internal growth of the Bank's lines of business have been instrumental to increasing revenues and consequently bolstering net income per common share. By successfully maintaining its growth strategy, the Bank recorded total revenue of $630.8 million in 2001, equal to an increase of 29% compared with 2000.

An increase in revenues from its current client base and the recruitment of new customers, following the reorganization carried out during 2001, along with the continuous deployment of B2B Trust will contribute to the growth of the Bank's total revenue in 2002.

IMPROVE THE EFFICIENCY RATIO

The implementation of the first phase of the Services Sales Added Value Added (SAVA) program, the integration of branches acquired and improvement of productivity of the business lines and corporate services throughout 2001 have enabled the Bank to attain an efficiency ratio of 70.3%, excluding special items*. This result represents an improvement of 1.6% over the ratio of 71.9% reported in 2000.

The continuation of the Bank's growth, the implementation of the second phase of the SAVA program and the effect of the reorganization should continue to improve the efficiency ratio in the 2002 fiscal year.

OBTAIN A COMPETITIVE RETURN

The Bank's business plan has defined the priority of obtaining a competitive return on common shareholders' equity. With its focus on growth and improving efficiency, this strategy continues to bear fruit: in 2001, the return on shareholders' equity, excluding special items*, stood at 13.8%, up from 12.7% in 2000.

The continuation of the targeted strategies intended to spur growth and improve efficiency will enable the Bank to obtain a competitive medium-term return on common shareholders' equity comparable to that of the banking industry.

* Special items are presented on Table 2 of management's discussion and analysis section on page 31 of this report.


THE WILL TO BE
ACCESSIBLE

ON THE STRENGTH OF ITS EXPERIENCED ADVISORS AND TECHNOLOGICAL RESOURCES, THE LAURENTIAN BANK PROVIDES ITS CUSTOMERS WITH THE INFORMATION AND ADVICE THEY NEED WHEN THEY NEED IT, AND WITH OPTIMAL SECURITY.

Throughout 2001, the lines of business and corporate sectors of Laurentian Bank have distinctively manifested their flexibility and capacities for innovation, and have actively participated in the pursuit of the Bank's strategic objectives while furthering its development. Clearly, they continue to represent essential components that make the Bank a unique institution in the Canadian financial products and services industry.

The Bank is proud to highlight this contribution, that should be appraised not only in light of the 2001 financial results but also in terms of the efficiency of operations and customer satisfaction, which undoubtedly constitute solid guarantees for the future.

The Bank is building its future day by day through its offering of financial products and services to Canadians, in particular by means of the initiatives and measures that it adopts to meet its strategic objectives and realize its business vision: *to become a customer-centred organization*. This goal implies being recognized as a financial institution whose lines of business, corporate sectors and individual employees are attentive to the requirements and expectations of each customer, and whose success is measured first and foremost by the satisfaction of all of its customers.

In this respect, 2001 can be considered a turning point during which the Bank has consolidated the elements essential for the attainment of its business vision: a leading edge technological platform, reorganization of its lines of business and corporate sectors, a broader array of products and services, the initial public offering of a subsidiary, an enhanced physical and virtual presence and the financial means to establish solid foundations and foster sustained development.

The Bank has adopted a customer-centred business vision, and is equipped with the resources – from the material and technical to the expertise and experience – to achieve its goals, as attested by the review of operations for 2001.

RETAIL BANKING

Retail Banking offers a comprehensive line of savings, investment and financing products, transactional products and services and trust and credit card services.

In 2001, Retail Banking finalized the integration of 43 Quebec branches acquired from Scotiabank on November 1st, 2000. The good level of retention of business acquired and the generation of the expected synergies resulting from the acquisition are among the factors that have contributed to the growth of this line of business and the increase in its revenue.

For the year ended October 31, 2001, Retail Banking posted net income of $32.5 million (before goodwill amortization), equal to an increase of 90% from $17.1 million in the year 2000. The contribution of this line of business to the net income of the Bank equalled 34.5% in 2001, versus 23.4% in 2000.

The integration of branches acquired and the implementation of phase I of the Services Sales Added Value Added (SAVA) program have also enabled Retail Banking to improve its efficiency ratio, which dropped from 84.7% in 2000 to 79.4% in 2001.

Adopted by the Bank during the 2000 fiscal year, the SAVA program is designed to improve the efficiency ratio and support the growth of Retail Banking. Backed by a business process automation program, SAVA has enabled this line of business to absorb additional volumes while ensuring quality service for all of its clienteles.

The Bank is convinced that the implementation of the second phase of the SAVA program will be even more effective in that the program now rests on solid foundations. The quality and efficiency of Retail Banking will be improved accordingly, especially because this line of business is continuing to grow and improve its results.

All of the customers in the branch network can thus enjoy better control and better quality information provided by the Bank. Retail Banking has established, in six regions, a position of Manager, Quality and Compliance, whose mandate is to ensure that each customer receives precise and reliable information during every transaction.

The quality of information is instrumental to establishing the trust – and loyalty – that customers place in their financial institution. By defining it as a priority and by allocating the necessary resources, the Bank plans to make the quality of information an undeniable competitive advantage and additional profitability factor.

The positive repercussions of the integration of Scotiabank branches acquired are also attributable to the quality, in terms of experience and expertise, of the human resources recruited by the Bank, along with the Bank's growing penetration of the outlying regions and urban centres of Quebec. All of the customers of the Bank and a larger number of Quebecers thus have easier and more efficient access to the full range of services offered.

THE BANK IS RECOGNIZED AS A PIONEER AND CANADIAN LEADER IN POINT-OF-SALE FINANCING.

The Bank is also recognized as a pioneer and Canadian leader in point-of-sale financing. This position has been reinforced, notably by agreements with first-rate partners, including the Association de la construction du Québec, Arctic Cat, Bombardier Capital, Bombardier Recreational Products, Campion, Doral, Gaz Métro Plus, Genmar, Hydro-Québec, Polaris and Suzuki.

The economic context nonetheless hampered the growth potential of this activity in 2001, as Canadian consumers exhibited increased prudence in spending and investments. Nonetheless, the Bank successfully bolstered its market

share in this sector, propelled by an increase in the number of participating retailers, and a proportionate rise in point-of-sale financing. By the end of 2001, Retail Banking offered Canadian consumers point-of-sale financing in some 6,660 establishments in all the provinces and territories of Canada.

COMMERCIAL AND CORPORATE BANKING

The services of Commercial and Corporate Banking include commercial financing and larger financings as part of banking syndicates, as well as commercial mortgage financing and factoring.

For the year ended October 31, 2001, Commercial and Corporate Banking posted net income of $30.7 million (before goodwill amortization), compared with net income of $28.5 million (before goodwill amortization) in 2000. The contribution of this line of business to the net income of the Bank amounted to 35.4%, down from 40.9% in 2000.

The efficiency ratio of Commercial and Corporate Banking increased from 31.7% in 2000 to 33.9% in 2001. The factors that contribute to this result notably include the opening of a new business centre in Hamilton, Ontario and the recruitment of new employees to spur the growth of this line of business.

The Bank is actively engineering the development of Commercial and Corporate Banking. For instance, it plans to continue innovating and establishing strategic partnerships with companies whose activities are complementary, in order to expand its line of products and services aimed at small and medium-sized Canadian businesses. It also aims to extend its reach throughout the country.

It was with this goal in mind that during 2000, the Bank entered into an agreement with Penfund Management Limited to offer mezzanine type financing, and forged alliances with Associates Capital Limited, for a leasing program, and with the Business Development Bank of Canada (BDC), for the creation of a $100 million fund to enable small and medium-sized Canadian businesses to obtain loans of up to $10 million.

THE BANK IS ACTIVELY ENGINEERING THE DEVELOPMENT OF COMMERCIAL AND CORPORATE BANKING. FOR INSTANCE, IT PLANS TO CONTINUE INNOVATING AND ESTABLISHING STRATEGIC PARTNERSHIPS.

The alliance of the Bank with Penfund Management Limited allows the mezzanine type fund to invest into three important entreprises in 2001, while the alliance with the BDC has resulted in the conclusion of several joint loan agreements.

In 2001, the Bank maintained this strategy by entering into commercial alliances with CDP Capital (subsidiary of the Caisse de dépôt et placement du Québec), the FTQ Solidarity Fund and Textron Financial Canada, among others.

Under the agreement signed with Textron Financial Canada, Commercial and Corporate Banking customers throughout Canada can now turn to Textron to obtain asset-based financing of between $2 million and $30 million. In return, the Bank is offering current and future customers of Textron Financial Canada an exclusive array of commercial banking products and services, together with access to the Interac network and its Website *blcentreprise.com*.

ON THE STRENGTH OF THE RELATIONSHIP OF TRUST IT MAINTAINS WITH EACH OF ITS CUSTOMERS, LAURENTIAN BANK IS AN ALLY IN REALIZING ITS CUSTOMERS' PROJECTS AND DREAMS. IT CAN THUS OFFER PERSONALIZED SERVICES THAT ENABLE ITS CUSTOMERS TO BUILD A WORRY-FREE FUTURE.

This dedicated Website is enjoying increasing volume: 80% of the Commercial and Corporate Banking customers have registered on the site and use it to obtain information and carry out a range of electronic transactions.

Moreover, the Bank has added a new service to this site, which enables Commercial and Corporate Banking customers to transmit their income tax returns and to pay their taxes to various government agencies online. This service is the

product of an agreement between the Bank and BCE Emergis, through its wholly owned subsidiary Can-Act Services.

Additional initiatives adopted by the Bank to ensure the development and profitability of Corporate sectors include the sale, in early 2001, of over $200 million in commercial mortgage loans to Merrill Lynch Capital Canada Inc., for the first commercial mortgage backed securities issue involving a Canadian bank.

THE FUTURE **CUSTOMER-CENTRED BANKING SERVICES**

During 2001, the lines of business and corporate sectors of the Bank underwent a reorganization in order to place the customer at the centre of the Bank's concerns and activities.

As part of this initiative, the Bank decided to merge all of its banking services – Retail Banking and Commercial and Corporate Banking, along with credit card services – under a unified leadership with a view to maximizing synergies and optimizing operations.

While ensuring effective continuity in its relations with retail customers and businesses that make up the majority of its clienteles, the Bank plans to consolidate its offering of banking products and services with a dual goal: to respond to the customers' needs and expectations as efficiently as possible, and to accelerate the recruitment of new clienteles.

A unified leadership and the advantageous synergies that it generates will contribute to improving the efficiency of banking services and will foster its sustained growth. For instance, the Bank plans to develop profitable synergies between VISA credit card services and point-of-sale financing, along with services aimed at small and medium-sized businesses. In addition, existing credit card processing technologies can be efficiently adapted to the needs of corporate financing services.

Retail Banking and Commercial and Corporate Banking will evidently continue to pursue their own strategic objectives, in order to develop their activities, clienteles and financial results. In 2002 and following years, these objectives will take shape around the following elements.

Point-of-sale financing represents the gateway to the Bank's products and services for many consumers. Thanks to the leading-edge technological platform developed by the Bank, these consumers will benefit from being able to request financing online, wherever the transaction takes place, and have the request authorized within minutes. By drawing on this competitive advantage to invite consumers to explore the line of products and services offered by the Bank, Retail Banking can use this financing as a valuable tool for development.

Improving the efficiency of the branch network is another high priority strategic objective that Retail Banking constantly strives to fulfil. Implementation of the second phase of the SAVA program during the 2002 fiscal year will contribute to this improvement and will support and even accelerate the growth of this line of business. Mobilization of all of the employees of the Bank and their quest to better serve the customers will ensure that this efficiency is translated each day into exceptional service quality.

With regard to banking services, the Bank is also committed to intensifying its presence throughout the regions of the country and enhancing its offering of products and services. The agreement concluded in 2001 between the Bank, B2B Trust and Canada Post Corporation illustrates both the spirit of innovation and the development potential that characterizes the initiatives of the Bank in this area.

Under this agreement, consumers, companies and independent financial advisors that do not have access to the branch network and automated banking machines of the Bank can now make and authenticate deposits in 50 post offices throughout the country. This innovative service could be offered in close to 1,000 locations over the next few years.

Commercial and Corporate Banking will also actively contribute to realizing the Bank's business vision. Through its increasingly targeted customer orientation, it will emphasize a service approach whereby each "banker" personally serves a small number of customers, and thus has sufficient time and resources to grant each customer undivided attention. This approach, backed by an original Canada-wide advertising campaign, will continue to be developed and refined over the next few years.

GENERATING SYNERGIES WITH THE ACTIVITIES OF RETAIL BANKING REPRESENTS A PROMISING AVENUE FOR DEVELOPMENT FOR BOTH LINES OF BUSINESS.

As part of the reorganization of its activities, the Bank plans to fuel the expansion of the activities of Commercial and Corporate Banking with a view to maximizing profitability. Generating synergies with the activities of Retail Banking represents a promising avenue for development for both lines of business.

Similarly, the Bank will continue to seek leading business partners over the coming years whose complementary strengths (capital, technology and assets) are conducive to spurring the rapid expansion of Commercial and Corporate Banking.

To accelerate the growth of its corporate sectors, the Bank also plans to develop an electronic commerce strategy that efficiently and effectively meets the new requirements of its customers. This new tool will complement the line of business solutions Commercial and Corporate Banking makes available to Canadian SMEs.

B2B TRUST AND AGENCY BANKING

B2B Trust, a regulated financial institution, supplies generic and complementary banking and financial products to independent financial advisors, non-bank financial institutions and retailers across Canada; the Agency Banking division distributes residential mortgage loans, term deposits, banking packages and other products.

For the year ended October 31, 2001, net income before goodwill amortization of B2B Trust and Agency Banking stood at $26.2 million, up from $24.8 million in 2000. This improved performance is attributable to the integration of the Sun Life Trust Company in March 2000 and especially to the internal growth of the line of business. B2B Trust and Agency Banking thus contributed 30.1% of the net income of the Bank in 2001, compared with 35.7% in 2000.

Propelled by the resources allocated to prospecting of clienteles and markets, along with the conclusion of new strategic agreements, the efficiency ratio of B2B Trust and Agency Banking increased slightly from 53.8% in the year 2000 to 54.3% in 2001.

THE BANK'S TECHNOLOGICAL EDGE, ONE OF THE ENGINES OF DEVELOPMENT OF B2B TRUST, WAS PUBLICLY RECOGNIZED IN 2001.

The success of the initial public offering of B2B Trust, in difficult economic conditions and volatile equity market conditions, undoubtedly constitutes one of the highlights of 2001, for both this line of business and for the Bank as a whole.

The proceeds from this initial offering allows B2B Trust to maintain and accelerate its development among independent financial advisors and non-bank corporations among others. B2B Trust plans to establish and be recognized as a leader by offering these clienteles high quality service and innovative products that combine efficiency and profitability.

○ **Advisor's Choice**

Throughout 2001, B2B Trust multiplied its initiatives and accelerated the conclusion of strategic agreements, all intended to optimize its product line and spur its growth and reach.

In the third quarter, B2B Trust introduced a line of banking products and services for distribution exclusively by independent financial advisors, longstanding partners of the line of business since 1995: *Advisor's Choice*.

THE SUCCESS OF A TEAM IS MEASURED BY ITS DETERMINATION TO HARNESS THE TALENTS OF EACH MEMBER TO ATTAIN A COMMON GOAL. AT LAURENTIAN BANK, THIS DETERMINATION IS MANIFESTED BY A CUSTOMER-CENTRED ORIENTATION THAT POWERS THE SUCCESS OF EVERY CUSTOMER AND THE COMMUNITY AS A WHOLE.

The line features a high-yield savings account, chequing account with banking package, line of credit, debit card, transactional Internet site and telebanking service. Independent financial advisors can thus offer their customers a full array of banking services or the package that best meets their specific needs.

Advisor's Choice also represents the first application of the Wealth Manager Package, an array of financial services designed for investors, whose implementation had been announced in 2000. The Bank will continue enhancing the Wealth Manager Package to expand the line of applications and allow other clienteles to take full advantage of it.

Strategic agreements

The agreements concluded with non-bank financial institutions in 2001 include AIC Limited's selection of B2B Trust as the exclusive supplier of a private-brand investment loan program. As part of this program, B2B Trust has designed a line of credit products, offered to certified AIC representatives across Canada, that will supplement the firm's investment fund line.

B2B Trust also signed a letter of intent with the Cartier Partners Financial Group. The letter provides that B2B Trust will provide a chequing account services under Cartier Partners' brand name to individuals with assets in the Cartier Money Market Fund. It also calls for B2B Trust to develop and supply investment loans and RRSP loans to Cartier Partners. With over 3,500 advisors, representatives and brokers, Cartier Partners Financial Group is the largest independent network of financial planners in Canada.

THE BANK CONSIDERS THE SUCCESS OF THE INITIAL PUBLIC OFFERING OF B2B TRUST AN UNEQUIVOCAL VALIDATION OF ITS BUSINESS PLAN

During the last quarter of 2001, Charles Schwab Canada, an integrated online brokerage, advisory and portfolio management firm, announced the launching of *SchwabOne*. This new sophisticated banking product was developed and fine-tuned by B2B Trust, and constitutes a comprehensive financial management tool that offers convenient access to an investment account and brokerage services along with online banking and telebanking services.

Leading-edge technological tools

The development of an advanced technological infrastructure, one of the strategic objectives of the Bank, directly supports the customer orientation adopted by each of the lines of business, particularly B2B Trust and Agency Banking.

Designing and perfecting personalized products and financial services adapted to the constantly evolving needs of a diversified clientele demands technological tools that combine innovation and flexibility. By allocating substantial investments, the Bank has cemented its technological leadership position that continues to add true value to its activities.

The Bank's technological edge, one of the engines of development of B2B Trust, was publicly recognized in 2001. B2B Trust received the 2001 Octas award from the Fédération de l'informatique du Québec (FIQ) in the Business Solutions category. The FIQ thus recognized the technological infrastructure that supports the activities of B2B Trust and its offering of services to independent financial advisors, non-bank financial institutions and retailers.

The technological development of B2B Trust also earned the Bank the Award for Excellence from the Canadian Information Productivity Awards (CIPA). The Bank also received the Award of Excellence for the best technological solution in the large enterprises category for this project. The CIPA is the largest business awards program in Canada in the field of information management.

THE FUTURE **THE DEPLOYMENT OF B2B TRUST AND AGENCY BANKING**

The Bank considers the success of the initial public offering of B2B Trust an unequivocal validation of its business plan that provides new impetus for the development of B2B Trust and Agency Banking.

B2B Trust will consequently intensify its efforts in 2002, along with its initiatives to develop both its network of independent financial advisors and its network of non-bank financial partners. The range and reach of these networks are essential to the sustained growth of both B2B Trust and Agency Banking, along with the continuous improvement of their profitability.

The attainment of this objective is closely linked to improving customer service for all independent financial advisors. B2B Trust and Agency Banking are also relying on the finalization of partnership agreements under negotiation and the conclusion of new agreements with leading partners.

The development and commercialization of new credit and wealth management products will contribute to enriching the offering of B2B Trust and Agency Banking services, and will attract new clients as well.

LAURENTIAN BANK SECURITIES

Throughout 2001, both in Canada and around the world, the brokerage industry has experienced significant upheavals, punctuated by declining equity markets.

In this unforgiving business environment, the Bank is relying on its vision and business strategy to highlight its competitive advantages and reinforce its presence in markets and sectors that have proven highly profitable over the medium term, in which it has already built solid awareness. Laurentian Bank Securities thus substantially improved its share of the institutional bond market, ensuring co-management of issues of provincial and public utilities instruments.

In the institutional market and the retail market alike, the brokerage subsidiary of the Bank is counting above all on the expertise, experience and innovative capacities of its team to consolidate its positions and contribute true added value to its activities.

Among other initiatives in 2001, Laurentian Bank Securities (LBS) signed an agreement with E*TRADE Canada, a leader in online brokerage services, along with Collective Bid Systems. Under this agreement, LBS provides quotes of its bond inventory to the E*TRADE Canada bond centre in online transactions and orders of related securities.

BLC-EDMOND DE ROTHSCHILD ASSET MANAGEMENT

This joint venture between Laurentian Bank and La Compagnie Financière Edmond de Rothschild Banque, established in 1999, promotes and manages an international fund family – R Funds – distributed by LBC Financial Services in Bank branches, as well as by brokers and financial planners across Canada.

Under an agreement concluded in late 2001, the R Fund family will now include all of the funds presently sponsored by the Bank, namely the original R Funds and the IRIS Funds, also offered by LBC Financial Services. Therefore, since January 2002, customers of the Bank and BLC-Edmond de Rothschild will have access to a full line of funds that will enable them to further diversify their portfolios.

THE FUTURE **A NEW LINE OF BUSINESS: WEALTH MANAGEMENT AND BROKERAGE**

In 2001, the reorganization of the Bank's activities resulted in the creation of a new line of business: Wealth Management and Brokerage. This segment includes the activities of BLC-Edmond de Rothschild Asset Management and Laurentian Bank Securities, and will begin reporting its results at the end of the first quarter of 2002.

The Bank is confident that it now has the infrastructure and technological tools required to impart true added value to the products and services of its new line of business, Wealth Management and Brokerage.

Moreover, the Bank considers the timing of this inception opportune. Not only should the recent stock market correction normally be followed by a noticeable upturn, thus offering favourable market conditions, but the Bank is also confident that the value and quality of its products and services constitute competitive advantages that will enable it to carve out a choice place in this market.

In this sense, the medium-term growth perspectives of Wealth Management and Brokerage are already attractive, and the Bank will attentively examine advantageous business opportunities to stimulate this growth through partnerships, in order to develop optimal critical mass. Lastly, because this line of business will require less regulatory capital, it will generate considerably more non-interest income, thus ensuring a better return on shareholders' equity.

One of the preferred means to promote this initiative consists in highlighting and accentuating the asset management function among the Bank's clientele. BLC-Edmond de Rothschild Asset Management thus began increasing its visibility and offering of services in the branch network. Similarly, Laurentian Bank Securities will promote its services to all Bank customers.

CORPORATE SECTORS ENCOMPASS A WIDE SPECTRUM OF SUPPORT SERVICES, WHICH ARE ESSENTIAL

IN ACHIEVING THE EXECUTION OF THE BANK'S TRANSACTIONS AND SPURRING ITS DEVELOPMENT.

CORPORATE SECTORS

Corporate Sectors encompass a wide spectrum of support services, which are essential in achieving the execution of the Bank's transactions and spurring its development.

Given the coming into effect of the Act to establish the Financial Consumer Agency of Canada and to amend certain Acts in relation to financial institutions, along with the highly competitive environment in the Canadian financial products and services industry, the Bank is actively preparing for the transition to a holding company.

To attain this strategic objective, Corporate Sectors as a whole play a key role whose importance is constantly growing as the Bank puts in place the requisite conditions for its transformation.

The new structure of the Bank includes four distinct Corporate Sectors and one independent function identified as follows: Treasury, Financial Markets and Risk Management; Finance and Strategic Development; Information Technology, Administrative Services and Real Estate Management; Human Resources and Corporate Affairs and the Audit, Security and Protection function.

Treasury, Financial Markets and Risk Management

By grouping the Treasury, Financial Markets and Risk Management divisions within the same sector, the Bank is providing even more rigorous and more efficient support to all of its transactional activities, while ensuring optimal management of the related risks, namely risks related to the market, interest rates, foreign exchange, credit and liquidity.

During 2001, internal growth of the Bank's lines of business and acquisitions led it to issue 2.5 million common shares. The net proceeds of this issue served to general Bank purposes and to expand the capital of the Bank. A new issue of 4 million preferred shares was completed a few days after the 2001 fiscal year.

Moreover, the Bank issued debentures totalling $150 million during the year and redeemed debentures of $96.8 million. Over $300 million of residential mortgage loans and $200 million in commercial mortgage loans were securitized during the year.

These capital management activities are crucial to the Bank's development. The Treasury, Financial Markets and Risk Management division therefore supports the Bank's policy in this respect, namely to ensure prudent and optimal management of capital to reduce the cost of financing operations and to maximize returns. In the context of market volatility that characterized the 2001 fiscal year, this policy has proven opportune and profitable. Activities such as securitization and portfolio insurance have enabled the Bank to substantially improve its capital ratios and thus to maintain favourable credit ratings.

The Treasury, Financial Markets and Risk Management sector consistently exhibits dynamism and initiative to take advantage of prime conditions and the most efficient market mechanisms. This attitude proved to be particularly advantageous in the area of interest rate risk management in 2001. In an uncertain economic climate, the Bank adopted a proactive position to downward interest rate movements. By effectively using currency swaps and one-day interest rate swaps, among other strategies, the Bank succeeded not only in minimizing the impact of plunging interest rates but also earned an impressive return, taking the economic context into account.

In exchange rates, the Bank's activities also were marked by significant developments during 2001. Letters of commercial credit were added to the range of services offered, and the Bank also discounted in the areas of importing and exporting. In general, the volume of commercial activities in this sector grew robustly.

Moreover, the Bank placed particular attention on risk management policies and mechanisms. Risk management models adopted include a market risk evaluation system, (value at risk or VAR) and a tool to measure risk-adjusted return on capital (RAROC).

A team of managers was formed to continue adapting these models to the policies and needs of the Bank, to establish an integrated operating risk management framework and to design an appropriate action plan.

Over the next few years, particular attention will be focussed on client-risk evaluation mechanisms. In personal loans, the mechanisms in place have proven to be highly efficient; the Bank will thus ensure that it refines them to meet the specific needs of point-of-sale financing in an even more targeted fashion.

In parallel with the development of point-of-sale financing and that of credit activities in general, the Treasury, Financial Markets and Risk Management sector will concentrate on designing specific evaluation models, in particular, debt recovery mechanisms.

Finance and Strategic Development

This corporate sector plays a critical role in the strategic development of the Bank: it co-ordinates and supports the initiatives of the lines of business, while carrying out a managerial function to ensure that these initiatives and the activities of the Bank as a whole meet the requirements and objectives defined.

In financial planning, the Finance and Strategic Development sector helped integrate the Scotiabank branches during 2001, to ensure the viability and maximize the potential of the anticipated synergies. Similarly, it has enhanced the tax position of the Bank, consequently improving its level of security and solidity.

The Finance and Strategic Development sector also allocated considerable energy to putting in place the Bank's decidedly customer-oriented strategic plan. In 2001, this strategic planning task called for the formulation of a development plan, followed by benchmarking of best practices in the industry and assessment of the competitive advantages for each of the lines of business of the Bank.

The constitution of a provision of $17.5 million ensues from the same strategic planning exercise: the Bank thus intends to guarantee the necessary resources for its customer orientation to be concretely and quickly manifested through the activities and projects of its lines of business and corporate sectors.

During the coming year, the Finance and Strategic Development sector will participate in the implementation of the second phase of the SAVA program, while continuing to monitor the planning and control of tax items. The sector also plans to play a strategic role in the upcoming realization of new acquisitions and the transition of the Bank to a holding company.

Information Technology, Administrative Services and Real Estate Management

During the 1998-2001 period, the Bank has allocated more than $135 million to attaining its strategic objective of acquiring a state-of-the-art technological infrastructure and developing innovative and powerful tools to support the growth of its lines of business and optimize its offering of services to all of its partners and customers.

Today the Bank is capitalizing on this technological infrastructure and pursuing the development of value-added products and services that endow it with an undeniable competitive edge.

Management Information Systems

As announced in 2000, the Bank implemented its standardized and consolidated data warehouse in 2001, and is actively orchestrating its development.

DURING THE 1998-2001 PERIOD, THE BANK HAS ALLOCATED MORE THAN $135 MILLION TO ATTAINING ITS STRATEGIC OBJECTIVE OF ACQUIRING A STATE-OF-THE-ART TECHNOLOGICAL INFRASTRUCTURE AND DEVELOPING INNOVATIVE AND POWERFUL TOOLS.

The first applications of the data warehouse – including the new compensation treatment for financial advisors – have already proven themselves, and have enabled the Bank to confirm the anticipated benefits of this leading-edge management tool.

During 2002 and subsequent years, the Bank will strive to optimize the applications and uses of its data warehouse to significantly increase the efficiency of its lines of business in the areas of decision making, provision of personalized services and development of customer relations. Here again, the customer orientation adopted by the Bank will serve as a guide to the definition of requirements and means to apply.

Outsourcing and partnerships

The Bank's strategic objectives in the information technologies field include the adoption of an outsourcing policy to harness the best human and technological resources available, to maintain its leadership in this area and to pursue the development of innovative leading-edge tools for its lines of business, its partners and its clienteles. To this effect, the following major agreements were concluded in 2001.

Technology services management In June 2001, the Bank entered into an agreement with CGI, the fourth largest independent consulting firm in its field in North America, to outsource management of its information technology services. Close to 150 people working in the information technology services of the Bank received and accepted job offers at CGI.

The agreement covers information systems project development, maintenance and upgrading of applications, production management, operations support, network management, deployment of technological infrastructures, technical support and management of the automated banking machine network. The Bank will continue to oversee all aspects of strategic planning, technological orientations, systems architecture, information security and project and service agreement management.

Online account aggregation During 2001, the Bank signed an agreement with CashEdge to offer online account aggregation and funds transfer services via the Internet and wireless platforms across Canada. Account aggregation allows Bank customers to obtain a consolidated view of all accounts they hold, regardless of the financial institution, simply by entering a single password.

Deployment of these new electronic services, from the LBCDirect Website (*www.laurentianbank.com*) and the B2B Trust transactional portal, has already been launched and will be implemented in three phases: account aggregation, fund transfers and wireless access.

The Bank, one of the first Canadian financial institutions to supply all of these services, thus confirms its leadership position in online banking services and its determination to constantly improve these services to benefit its customers.

The Bank is also very proud of the evaluation its site received from Gomez, a North American firm that ranks Websites in all sectors.

The Bank was ranked second of 14 sites of Canadian financial institutions evaluated in the fall of 2001. In one of the categories of the Gomez ranking, the Bank received top marks for the range and quality of electronic services that it offers its customers.

IN ONE OF THE CATEGORIES OF THE GOMEZ RANKING, THE BANK RECEIVED TOP MARKS FOR THE RANGE AND QUALITY OF ELECTRONIC SERVICES THAT IT OFFERS ITS CUSTOMERS.

A sharable versatile infrastructure

All of the applications of the Bank programs have been reconfigured to ensure optimal and flexible use, for both the Bank and B2B Trust. This new computer environment enables B2B Trust to capitalize on the technological strengths of the Bank to offer its partners a competitive line of banking services under their own banner.

A user-friendly Website

The LBCDirect Website (*www.lbcdirect.laurentianbank.com*) of the Bank continues to evolve. New functions introduced in 2001 include the *webdoxs* electronic bill presentment service.

Human Resources and Corporate Affairs

The Human Resources and Corporate Affairs sector encompasses a set of functions related to planning and development of human resources, legal affairs and public affairs and communications. It also oversees the secretariat of the Bank and its subsidiaries, and establishes, implements and monitors compliance programs.

The training and integration of nearly 425 ex-employees of Scotiabank, the human resources management of outsourcing of information technologies, reorganization of pension plans, the reorganization of the lines of business and corporate sectors, and questions related to corporate governance dominated the activities of the Human Resources and Corporate Affairs sector during 2001.

The attainment of this objective is contingent on the Human Resources and Corporate Affairs sector's ensuring that the Bank's human resources policies and practices are constantly monitored to ensure that they effectively support the Bank's business plan.

The Legal Affairs and Compliance division also actively supports the implementation of agreement and partnership proposals, in transactions and even in development of new financial products offered by the Bank to its customers.

IN THE SPECIFIC AREA OF HUMAN RESOURCES MANAGEMENT, THIS SECTOR IS ACTIVELY FACILITATING THE BANK'S TRANSITION TO A HOLDING COMPANY.

In the specific area of human resources management, this sector is actively facilitating the Bank's transition to a holding company. By identifying and learning from best practices in this area, the Bank is thus defining a new framework for the Human Resources function, which is already translated into a partial decentralization of this function in each line of business.

The Legal Affairs and Compliance division played a key role in all legal and regulatory files throughout 2001: the initial public offering of B2B Trust; outsourcing agreements; strategic alliances; the reform of the financial services sector and pertinent regulations.

This division provides tools to ensure that the Bank complies with all laws, regulations and guidelines applicable to the statutes and activities of a financial institution, whether they originate from the Canadian government, a provincial government or a regulatory body such as the Office of the Superintendent of Financial Institutions Canada, The Canada Deposit Insurance Corporation or Canadian Securities Administrators.

Internal and external communications of the Bank are managed by the Public Affairs and Communications division. Customers, employees, and journalists, along with the general public can thus count on a credible and efficient source of information, intended to respond to their interest in the institution. In this sense, the Public Affairs and Communications division plays a strategic role: it strives to harmonize and disseminate, through the forums available, both factual information and position the Bank's corporate image.

A partner in the Canadian financial products and services industry, the Bank also strives to act as a partner to the communities in which it operates, and to actively contribute to the well-being of the population in terms of economic, social, sports and cultural activities. In this respect, the Public Affairs and Communications division highlights the contribution of the Bank and its employees to the communities it serves through sponsorships and support programs for recognized organizations, among other means.

Beyond these support activities, Human Resources and Corporate Affairs is mainly concerned with orchestrating the transition of the Bank to a holding company, the repercussions of the reform of the financial services sector and the legislation governing financial institutions, along with the formalization of processes intended to optimize risk management in this sector.

Audit, Security and Protection function

The Audit function is an independent service whose mission is to contribute to the attainment of the objectives of the Bank and its subsidiaries by identifying the risks related to the Bank's activities, reinforcing the control of those risks and making efficient and effective use of resources.

The Security and Protection function contributes to the attainment of the objectives of the Bank and its subsidiaries by protecting its employees and its assets, the integrity of its operations and by helping to maintain its corporate reputation and business credibility.

Both functions aim to be recognized by its clients for using a modern approach and efficient methods.

The financial results of each of the lines of business of the Bank are presented in note 21 of the consolidated financial statements, on page 80 of this report.

This section of the Annual Report is the Management's discussion and analysis of the results of operations and financial condition of the Bank for the year ended October 31, 2001. The information is presented on the same basis as in the Consolidated Financial Statements prepared in accordance with Canadian generally accepted accounting principles.

Cautionary note on forward-looking statements

This Annual Report contains forward-looking statements of Laurentian Bank. These statements are subject to random factors and risk factors, several of which are independent of the Bank's will, and can have an impact on the Bank's operations, performance and results. These factors may affect actual results which could differ from anticipated performance. These factors include legislative and regulatory changes, intensification of competition, evolution of technology, financial market conditions and the economic climate in Canada and around the world, along with the Bank's success at managing costs related to executing its business plan. Readers are advised not to place disproportionate confidence in the forward-looking statements.

Methodology of analysis of results

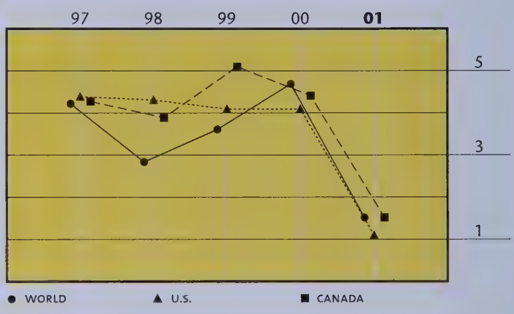
Management evaluates the Bank's performance on a core basis, that is excluding special items, and on a reported basis, as presented in the consolidated financial statements. Management views special items as transactions that are not part of normal day-to-day operations or are unusual in nature. This distinction is made in order to ensure that Management's analysis of recurring trends is not hindered. Special items have been reported in 2000 and 2001 and are presented in Table 2 of this analysis on page 31 of the Annual Report.

ECONOMIC REVIEW

In 2001, the growth of the global economy slowed considerably compared with the previous year, when economic production increased at a sustained rate of 4.7% (see graph on this page).

Europe experienced an economic slowdown in 2001 and was sliding into a recession by year-end. Activity declined substantially in the industrial sector, especially in the United Kingdom. Consumer confidence and the business climate gradually deteriorated while unemployment rose and consumption softened. The Bank of England reacted quickly by reducing interest rates in early 2001, and the European Central Bank did the same late in the year. Moreover, the economic environment in Japan did not improve in 2001. The country could not extricate itself from the vicious circle of deflation that has been afflicting it for over three years.

GDP GROWTH RATE
(as a percentage)



After running at full steam for ten years, the United States economy began to sputter in late 2000. The situation was aggravated in 2001, when the industrial sector descended into a recession, brought on, among other factors, by the meltdown in the technology and telecommunications sector. Investment growth slowed, then entered negative territory in the second quarter of the year. In parallel, employment plunged while the unemployment rate climbed. Despite slackening economic activity, Americans continued to consume at a relatively high pace in the first eight months of the year. However, the terrorist attacks in September shook consumer confidence and aggravated the deterioration of the business climate in the United States.

The Federal Reserve implemented a pronounced easing of the monetary conditions during the year, the stimulatory effect of which should be seen shortly. Moreover, the American authorities plan to apply a series of tax measures designed to revitalize the economy, and government spending should increase in the next few months, particularly in the national defence sector. As a result, the recession in the United States should

be modest and of short duration. However, the current context is highly uncertain because the impact of the September 11th events on consumer and businesses confidence levels is unknown.

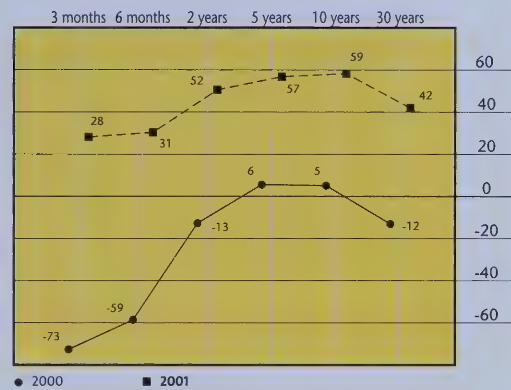
Owing to the close commercial ties between the United States and Canada, Canada will have difficulty avoiding the repercussions of an economic slowdown of its southern neighbour. Canada experienced a marked drop in exports in 2001, which translated into a considerable downturn in industrial production. In contrast with the sharp drop in employment in the United States, Canadian employment levels continued to rise in 2001, but at a much slower pace. This is probably only a temporary reprieve, however, because the marked economic slowdown should eventually bring employment levels downward. The unemployment rate, slightly higher in late 2001, should continue to increase in early 2002. Inflation, buoyed in 2000 by energy prices, dropped in 2001 as energy prices fell, and should remain low in 2002.

The Bank of Canada has considerably reduced interest rates since the beginning of the year, notably over the past few months, as the economic slowdown in Canada accentuated. The easing of the monetary policy and the recovery in the United States should trigger a gradual upturn in the Canadian economy beginning in the second quarter of 2002. Laurentian Bank Securities Research Department expects that real GDP growth will be 1.5% and 1.4% in 2001 and 2002, respectively.

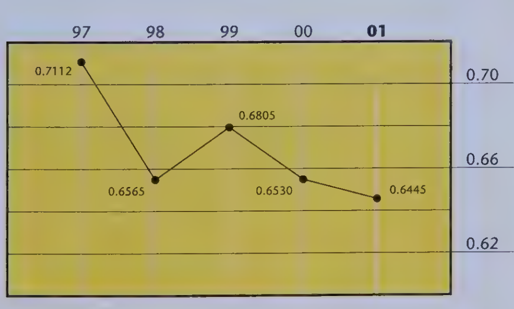
In response to the Bank of Canada's monetary easing measures, Canadian short-term and long-term interest rates are lower than last year. However, on October 31, 2001, the spread between Canadian and American rates was larger than on the same date last year, owing to the fact that United States monetary policy was more expansionist than its Canadian counterpart in the first ten months of the year. The value of the Canadian dollar vis-à-vis the American dollar remained practically unchanged in 2001 compared with the previous year, although the loonie depreciated slightly in relation to the currencies of its other trade partners, causing the effective exchange rate of the Canadian dollar to decrease accordingly (see graphs on this page).

Overall, the global economy has experienced a pronounced slowdown in 2001, but should gradually recover in subsequent years, in tandem with the American and European economies.

INTEREST RATE SPREADS: DIFFERENCE BETWEEN CANADIAN AND U.S. RATES
(in Basis points)



CANADIAN DOLLAR EXCHANGE RATE



YIELD CURVE: TREASURY BILLS AND GOVERNMENT OF CANADA BONDS
(as a percentage)

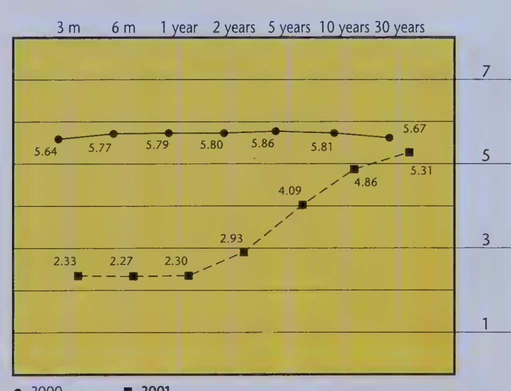


TABLE 1 – HIGHLIGHTS OF FINANCIAL RESULTS

for the years ended October 31 (on a taxable equivalent basis, in millions of dollars except per share amounts)	2001	2000	1999	01/00 growth
Net interest income	$ 366.1	$ 279.9	$ 231.4	31 %
Non-interest income	265.6	211.8	212.7	25
Total revenue	**631.7**	491.7	444.1	**28**
Provision for credit losses	35.0	25.0	18.7	40
Non-interest expenses	440.0	350.9	342.1	25
Income taxes	59.9	32.1	25.6	87
Net income before non-controlling interest and goodwill amortization	96.8	83.7	57.7	16
Non-controlling interest in net income of subsidiary	2.0	—	—	—
Net income before goodwill amortization	**94.8**	83.7	57.7	**13**
Amortization of goodwill, net of income taxes	4.1	2.0	2.0	105
Net income	**$ 90.7**	$ 81.7	$ 55.7	**11 %**
Net income attributable to common shareholders	**$ 77.2**	$ 67.7	$ 42.3	**14 %**
Average number of common shares				
outstanding (in millions)	22.7	20.2	20.2	12 %
outstanding after dilution (in millions)	22.9	20.2	20.3	13 %
Net income per common share before goodwill amortization				
basic	**$ 3.58**	$ 3.46	$ 2.20	**3 %**
fully diluted	**$ 3.55**	$ 3.45	$ 2.18	**3 %**
Net income per common share after goodwill amortization				
basic	**$ 3.40**	$ 3.36	$ 2.10	**1 %**
fully diluted	**$ 3.37**	$ 3.35	$ 2.08	**1 %**
Return on common shareholders' equity before goodwill amortization	**13.8 %**	14.8 %	10.1 %	

SUMMARY OF FINANCIAL RESULTS

Laurentian Bank recorded net income before goodwill amortization of $94.8 million in 2001, up from $83.7 million in 2000, as shown in Table 1. On the same basis, diluted earnings per common share stood at $3.55 for the year ended October 31, 2001, compared with $3.45 for fiscal 2000.

Net income available to common shareholders, before goodwill amortization and excluding special items presented in Table 2, is the best measure of evaluating the progress achieved by the Bank during the year ended October 31, 2001 compared with 2000. On this basis, net income increased from $59.7 million in 2000 to $81.5 million in 2001, while diluted earnings per common share increased by 20.7% to reach $3.56 for the year ended October 31, 2001 compared with $2.95 in 2000; return on common shareholders' equity increased from 12.7% in 2000 to 13.8% in 2001.

The 2001 net income includes the following special items:

- An income tax charge of $12.1 million ($0.53 per share[1]) principally reflecting the reduction of future income tax assets resulting from Federal and Provincial corporate income tax rate reductions;
- A gain of $10.9 million ($10.9 million after taxes or $0.48 per share[1]) related to the reinsurance of a block of credit insurance premiums;
- A dilution gain of $12.4 million ($12.4 million after income taxes or $0.54 per share[1]) arising from the initial public offering (IPO) of 6.4 million common shares of B2B Trust;
- A provision of $17.5 million ($11.4 million after income taxes or $0.50 per share[1]) related to the restructuring of the Bank's operations aimed at improving growth and efficiency.

For all intents and purposes, the impact of these special items on 2001 net income is almost neutral, corresponding to a net charge of $0.2 million ($0.01 diluted per common share).

(1) Diluted before amortization of goodwill

TABLE 2 – SUMMARY OF SPECIAL ITEMS

for the years ended October 31		2001				2000		
(in millions of dollars except per share amounts)		$		Per share[1]		$		Per share[1]
Net income available to common shareholders before amortization of goodwill	**$**	**81.3**	**$**	**3.55**	$	69.7	$	3.45
Special items								
Income tax savings not previously recorded as stated in September 2000		—		—		(10.0)		(0.50)
Reduction of corporate income taxe rates (First & Third quarters of 2001)		**12.1**		**0.53**		—		—
Reinsurance gain on a block of credit insurance premiums (First quarter of 2001)		**(10.9)**		**(0.48)**		—		
Dilution gain resulting from the IPO of a subsidiary (Third quarter of 2001)		**(12.4)**		**(0.54)**		—		—
Restructuring provision (net of $6.1 million of income taxes) (Third quarter of 2001)		**11.4**		**0.50**		—		—
Total of special items		**0.2**		**0.01**		(10.0)		(0.50)
Net income available to common shareholders before amortization of goodwill and special items	**$**	**81.5**	**$**	**3.56**	$	59.7	$	2.95

[1] *Diluted before amortization of goodwill.*

For 2000, there was one special item which had a significant impact on earnings that was announced during the year. The 2000 net income included net reductions of income taxes from statutory rates in the amount of $16.0 million, composed principally of tax benefits previously not recorded, of which $10.0 million or $0.50 diluted per common share was recognized during the fourth quarter of 2000, as announced in a press release in September 2000.

The core results of the Bank can be better analyzed excluding the special items mentioned above, especially in the case of income tax expense. Excluding the impact of special items, the provision for income taxes was $53.0 million in 2001 compared to $41.1 million in 2000, representing an effective tax rate of 35.3% in 2001 compared to 35.8% in 2000. The effective tax rate before excluding special items was 38.3% in 2001 compared to 27.2% in 2000, as described in Note 15 of the consolidated financial statements on Page 73 of the Annual Report.

OPERATING RESULTS

○ Total revenue

Laurentian Bank recorded total revenue of $608.4 million in 2001, on a taxable equivalent basis, (excluding a gain of $10.9 million related to reinsurance of a block of credit insurance premiums and a dilution gain of $12.4 million ensuing from the IPO of a subsidiary), corresponding to an increase of 23.7% over total revenue of $491.7 million in 2000.

The principal factors attributable to this increase in the Bank's total revenue are:

- integration of the 43 Quebec branches acquired from Scotiabank;
- growth of assets in the lines of business;
- improvement of the loan and deposit portfolio mix, that generated an increased net interest margin.

○ Net interest income

For 2001, net interest income was $366.1 million, on a taxable equivalent basis, equal to an increase of 30.8% over the $279.9 million in 2000. Net interest income of the Bank represents 2.13% of average assets in 2001 compared with 1.95% in 2000.

This result is attributable to the following significant factors: 19.5% growth of average assets and increase in interest margins related to continuous improvement of the Bank's loan and deposit portfolio mix, a high level of retention of business acquired from Scotiabank in Quebec – including personal, commercial and mortgage loans – and sound management of structural elements of the Bank's balance sheet.

NON-INTEREST INCOME
(in millions of dollars)

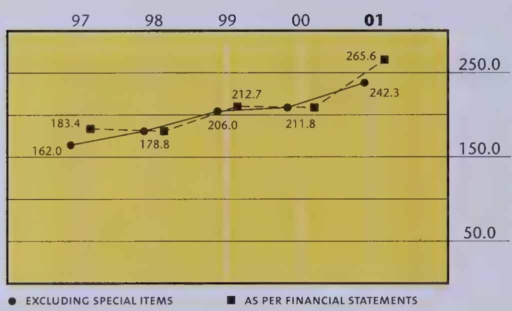


Table 3 presents the changes in net interest income for 2001 and 2000.

The Bank's management is pleased with the continuous improvement in its personal loan and deposit portfolio mix, a key orientation that will be pursued with determination over the next few years.

Non-interest income

In 2001, core non-interest income totalled $242.3 million ($265.6 million including the gain of $10.9 million related to reinsurance of a block of credit insurance premiums and a dilution gain of $12.4 million ensuing from the IPO of a subsidiary) compared with $211.8 million in 2000. This 14.4% increase is mainly attributable to higher lending and deposit fee income, the addition of Quebec Scotiabank branches, and higher treasury and financial markets revenue.

Table 4 presents the changes in non-interest income from 1997 to 2001.

Lending fees stood at $43.6 million in 2001, an increase of 33.3% from 2000, at $32.7 million. Other income generated by loan and deposit operations, including Visa revenues, increased by 34.1%, from $69.7 million in 2000 to $93.5 million in 2001.

Securitization revenue stood at $18.7 million in 2001, down from $22.2 million in 2000. This decline is mainly attributable to a 6% decrease in mortgage loans under management at year-end 2001 compared with 2000, partially offset by a gain of $3.4 million resulting from the securitization of residential mortgage loans completed in June and October 2001 and recorded according to the accounting principles described in Note 1k) of the Bank's 2001 consolidated financial statements. During the year, the Bank completed securitizations of $0.5 billion of residential and commercial mortgages compared with $1.0 billion in residential mortgages in 2000. Not only do they generate revenue, but securitization activities also contribute directly to improving the Bank's capital ratios.

TABLE 3 – CHANGES IN NET INTEREST INCOME

for the years ended October 31	**2001**			2000			Change		
(on a taxable equivalent basis, in millions of dollars and as a percentage)	**Average volume**	**Interest**	**Average rate**	Average volume	Interest	Average rate	Due to volume	Due to rate	Total
Assets									
Cash resources	$ 408	$ 12.7	3.11 %	$ 136	$ 5.5	$ 4.04 %	11.0	$ (3.8)	$ 7.2
Securities	1,576	72.3	4.59	1,516	76.1	5.02	3.0	(6.8)	(3.8)
Fixed-rate loans	9,261	665.2	7.18	7,720	542.0	7.02	108.2	14.8	123.0
Variable-rate loans	3,995	317.5	7.95	3,326	280.3	8.43	56.4	(19.2)	37.2
Other	1,936	10.5	0.54	1,679	6.8	0.41	1.1	2.5	3.6
Total – Assets	**$17,176**	**$1,078.2**	**6.27 %**	$ 14,377	$ 910.7	6.33 %	$ 179.7	$ (12.5)	$ 167.2
Liabilities									
Notice and demand deposits	$ 2,162	$ 15.3	0.71 %	$ 1,817	$ 10.9	0.60 %	$ 2.1	$ 2.4	$ 4.5
Fixed date deposits	12,055	652.7	5.41	9,950	550.7	5.53	116.4	(14.5)	101.9
Other	1,756	3.8	0.22	1,634	25.5	1.56	1.9	(23.5)	(21.6)
Shareholders' equity, non-controlling interest in a subsidiary and subordinated debentures	1,203	34.4	2.86	976	27.5	2.82	6.4	0.5	6.9
Total – liabilities	**$17,176**	**$ 706.2**	**4.11 %**	$ 14,377	$ 614.6	4.27 %	$ 126.8	$ (35.1)	$ 91.7
Derivative financial instruments	—	**$ (5.9)**	**(0.03)%**	—	$ (16.2)	(0.11)%	$ —	$ 10.3	$ 10.3
Net interest income		**$ 366.1**	**2.13 %**		$ 279.9	1.95 %	$ 52.9	$ 32.9	$ 85.8

TABLE 4 – NON-INTEREST INCOME

for the years ended October 31 (in millions of dollars)	**2001**	2000	1999	1998	1997	**01/00 growth**
Lending fees	$ 43.6	$ 32.7	$ 29.7	$ 19.4	$ 20.6	33 %
Visa	13.5	8.8	8.0	7.7	7.5	53
Deposit service charges	36.4	28.2	27.3	28.2	31.3	29
Sub-total – loan and deposit operations	**93.5**	69.7	65.0	55.3	59.4	**34**
As a % of average assets	**0.55 %**	0.48 %	0.50 %	0.46 %	0.48 %	
Securitization revenues	18.7	22.2	25.4	15.4	—	(16)
RRSP, RRIF and other self-directed plans	25.8	24.1	24.4	23.8	23.2	7
Trust services	1.4	2.3	4.8	7.0	9.0	(39)
Insurance revenue	4.5	4.5	4.5	5.0	5.3	0
Mutual funds revenue	17.9	16.8	14.5	16.4	14.9	7
Brokerage operations	23.3	23.8	17.3	13.4	9.6	(2)
Treasury and financial market operations	48.7	40.5	43.7	35.3	33.1	20
Other	8.5	7.9	6.4	7.2	7.5	8
Special items	23.3	—	6.7	—	21.4	—
Sub-total – other services	**172.1**	142.1	147.7	123.5	124.0	**21**
As a % of average assets	**1.00 %**	0.99 %	1.15 %	1.02 %	1.00 %	
Total – non-interest income	**$ 265.6**	$ 211.8	$ 212.7	$ 178.8	$ 183.4	**25 %**
As a % of average assets	**1.55 %**	1.47 %	1.65 %	1.48 %	1.48 %	

Treasury and financial markets operations revenue totalled $48.7 million in 2001 compared with $40.5 million in 2000. Throughout the year 2001, the Bank adopted strategic positions to take advantage of volatile market conditions and declining interest rates.

Provision for credit losses

The provision for credit losses was $35.0 million in 2001, or 0.25% of the average loan and bankers' acceptances portfolio, versus $25.0 million or 0.21% in 2000.

This increase is mainly attributable to loan portfolio growth and the economic slowdown, that has unfavourably impacted personal and commercial loans. The provision for credit losses related to residential and commercial mortgage loans for 2001, which is down from 2000, reflects the strength of this market in 2001.

Table 5 presents the changes in the provision of credit losses from 1999 to 2001.

Non-interest expenses

In 2001, core non-interest expenses increased by 20.4%, from $350.9 million in 2000 to $422.5 million in 2001 ($440.0 million including the restructuring provision of $17.5 million described below). This increase is mainly attributable to the integration of Scotiabank branches and its impact on all non-interest expenses of the Bank, the increases in performance-related compensation costs and the prospective implementation of the new accounting standards applicable to employee future benefits. Moreover, the 2001 results include additional costs of $5.0 million incurred during the integration period relating to the temporary servicing agreement with Scotiabank.

TABLE 5 – PROVISION FOR CREDIT LOSSES

for the years ended October 31 (in millions of dollars)	**2001**	2000	1999
Personal loans	$ 16.1	$ 9.9	$ 9.0
Residential mortgage loans	2.2	3.1	6.3
Commercial mortgage loans	4.2	5.5	(0.5)
Commercial and other loans	12.5	6.5	3.9
Total – provision for credit losses	**$ 35.0**	$ 25.0	$ 18.7
As a % of average loans and bankers' acceptances	**0.25 %**	0.21 %	0.18 %

Table 6 illustrates the changes in non-interest expenses from 1997 to 2001.

The number of Bank employees increased by 11.6% in 2001, from 3,481 the previous year to 3,884. This increase is mainly attributable to the addition of the Quebec Scotiabank branches and the growth in the lines of business and certain corporate sectors, offset by the outsourcing of technology activities.

Another impact of the acquisition of the Quebec Scotiabank branches is reflected in the increase in taxes and insurance in 2001. Despite its impact on the cost of deposit insurance, the substantial increase in deposits has enabled the Bank to proportionately increase the deposit base insured by the Canada Deposit Insurance Corporation (CDIC).

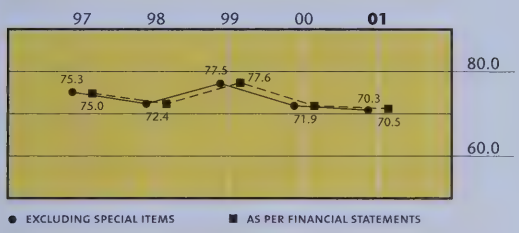
During 2001, the Bank established a provision of $17.5 million for the restructuring of two important sectors of activity. A series of measures were taken to improve the efficiency of Retail Banking and support its growth. Wealth Management activities, now grouped in a single line of business, will be reorganized to generate substantial growth, synergies and profitability. Finally, certain corporate activities associated with changes in the Bank Act and corporate structures are also planned.

TABLE 6 – NON-INTEREST EXPENSES

for the years ended October 31 (in millions of dollars)	**2001**	2000	1999	1998	1997	**01/00 growth**
Salaries and employee benefits	**$ 212.9**	$ 177.2	$ 162.9	$ 154.3	$ 167.7	**20 %**
As a % of average assets	1.24 %	1.23 %	1.26 %	1.28 %	1.35 %	
Premises and equipment						
Rent and property taxes	33.5	28.9	25.2	25.1	23.9	
Equipment and computer services	36.2	27.7	28.3	28.4	25.4	
Maintenance and repairs	7.1	6.3	6.9	7.1	6.4	
Public utilities	2.4	2.3	2.7	2.9	2.7	
Depreciation	36.1	30.9	27.0	23.8	19.4	
Other	0.6	0.5	0.2	0.2	0.4	
Sub-total – premises and equipment	**115.9**	96.6	90.3	87.5	78.2	**20**
As a % of average assets	0.67 %	0.67 %	0.70 %	0.72 %	0.63 %	
Other expenses						
Advertising and business development	10.9	9.4	10.1	9.0	10.2	
Communications and travelling expenses	18.8	17.2	16.9	16.9	17.1	
Recruitment and training	2.4	1.8	2.9	2.0	2.5	
Stationery and publications	7.2	6.3	5.8	5.7	5.8	
Fees and commissions	17.1	18.9	20.2	18.0	13.6	
Taxes and insurance	25.9	17.8	22.6	27.2	34.0	
Restructuring costs	17.5	—	5.5	—	14.5	
Other	11.4	5.7	4.9	2.8	0.6	
Sub-total – other expenses	**111.2**	77.1	88.9	81.6	98.3	**44**
As a % of average assets	0.65 %	0.54 %	0.69 %	0.67 %	0.79 %	
Total – non-interest expenses	**$ 440.0**	$ 350.9	$ 342.1	$ 323.4	$ 344.2	**25 %**
Amortization of goodwill	$ 5.5	$ 2.4	$ 2.4	$ 1.8	$ 3.3	
As a % of average assets	2.59 %	2.46 %	2.67 %	2.69 %	2.80 %	
As a % of total revenue(1) (efficiency ratio)	70.5 %	71.9 %	77.6 %	72.4 %	75.0 %	

(1) On a taxable equivalent basis including amortization of goodwill.

EFFICIENCY RATIO
(operating costs as a percentage of total revenue)



Efficiency ratio

The Bank has improved its core efficiency ratio during the year ended October 31, 2001, with a 70.3% ratio excluding special items compared with 71.9% in 2000. Including special items (gain of $10.9 million related to the reinsurance of a block of credit insurance premiums, dilution gain of $12.4 million arising from the IPO of a subsidiary and the $17.5 million restructuring provision), the efficiency ratio was 70.5%.

The improvement of the Bank's efficiency ratio is attributable largely to the strong performance of Retail Banking. This line of business successfully improved its efficiency ratio by over 5.3% in 2001, from 84.7% in 2000 to 79.4% in 2001.

The integration of the Scotiabank branches, finalized in mid-2001, and realization of the expected acquisition synergies, as well as the implementation of the first phase of the SAVA program – a Bank program intended to spur revenue growth and enhance efficiency – were among the factors that contributed to this improvement.

The Bank plans to continue improving its efficiency ratio over the coming financial years. The main thrust of this strategic objective is a growth strategy: continuing to improve the efficiency of lines of business while growing the Bank's total revenue.

Income taxes

On a taxable equivalent basis, the provision for income taxes for the fiscal year 2001 stood at $59.9 million, excluding taxes of $1.4 million related to goodwill amortization. This amount includes a special charge of $12.1 million essentially related to the impact of the Federal and Provincial corporate income tax rate reductions on future income tax assets.

Income taxes, on taxable equivalent basis and excluding taxes of $0.4 million related to goodwill amortization, stood at $32.1 million in 2000, and included net reductions of income taxes from statutory rates in the amount of $16.0 million, composed principally of income tax benefits not previously recorded, of which $10.0 million or $0.50 diluted per common share was recognized during the fourth quarter of 2000.

Excluding the impact of special items described in Table 2 and based on the consolidated financial statements, the provision for income taxes was $53.0 million in 2001 compared to $41.1 million in 2000, representing an effective tax rate of 35.3% in 2001 compared to 35.8% in 2000. The effective tax rate before excluding special items was 38.3% in 2001 compared to 27.2% in 2000 as described in Note 15 of the consolidated financial statements on page 73 of the Annual Report.

BALANCE SHEET ASSETS AND ASSETS UNDER ADMINISTRATION

On October 31, 2001, total assets of the Bank, that is total balance sheet assets and assets under administration, stood at $30.8 billion, compared with $28.9 billion on October 31, 2000. Balance sheet assets stood at $17.7 billion, up 20% from 2000, whereas assets under administration totalled $13.1 billion, $1.1 billion lower than last year. These changes are explained in the balance sheet assets and assets under administration sections that follow.

The year 2001 ended in a context of uncertainty, in which recession worries were coupled with an economic slowdown that accentuated over the months. This climate engendered increased consumer and business prudence in spending and investments. The Bank nonetheless increased its total assets for the year ended October 31, 2001.

By adopting a client-centric orientation, it plans to build on its strengths and pursue its initiatives to increase growth in its lines of business and increase its assets. The growth potential of Retail Banking and Commercial and Corporate Banking, combined with the competitive advantages of B2B Trust and Agency Banking, will play key roles in this respect.

Balance sheet assets

The Bank posted balance sheet assets of $17.7 billion on October 31, 2001 compared with $14.7 billion on October 31, 2000. This increase of $3.0 billion or 20% compared with last year is essentially attributable to: the addition of 43 Quebec Scotiabank branches; the growth of cash resources and securities and loan portfolio growth in lines of business without consideration of the impact of securitization and the branches acquired during the year.

Total loans, excluding treasury loans and before securitization, increased by $2.4 billion, of which $1.8 billion is the result of the Scotiabank branches acquisition. During 2001, the Bank completed securitizations of $314 million in residential mortgage loans and $200 million in commercial mortgage loans, compared with $1.0 billion in residential mortgage loans in 2000.

Table 7 presents additional information on changes in balance sheet assets.

Loan portfolio mix

The Bank's loan portfolio consists of personal loans, residential mortgage loans, commercial mortgages and commercial loans. At year-end the loan portfolio stood at $13.4 billion (excluding treasury loans), up from $11.5 billion in 2000.

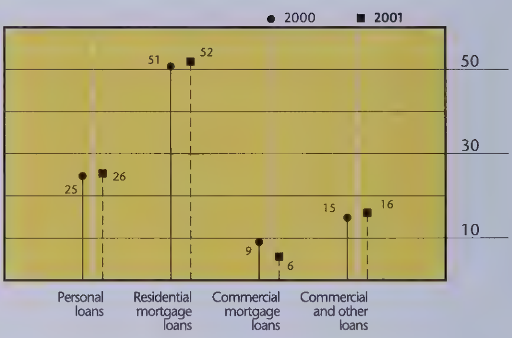
On October 31, 2001, the personal loan portfolio totalled $3.5 billion, equal to 26% of the Bank's loan portfolio.

Residential mortgage loans represent 52% of this portfolio on the same date, whereas the proportion of commercial mortgage loans is 6%.

Commercial loans, a portfolio consisting mostly of loans to Canadian small and medium-sized businesses and entrepreneurs, reached $2.1 billion at the end of 2001, representing 16% of the Bank's portfolio.

Geographic diversification The initiatives adopted by the Bank over the years to ensure the development of its lines of business reflect its determination to extend its reach throughout the regions of Quebec, Ontario and in targeted regions of western Canada.

LOAN PORTFOLIO MIX
(as a percentage)



The acquisition of Quebec Scotiabank branches increased Quebec's share of total Bank loans from 44% in 2000 to 51% in 2001.

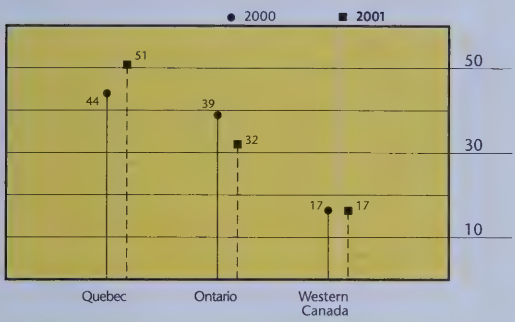
On October 31, 2001, the geographic distribution of Bank loans remains diversified. Accordingly, Ontario's share was 32%, down 7% from last year, whereas that of the western Canadian provinces remained stable at 17%.

Loan size by commercial borrower The Bank has widely recognized experience and expertise in financing of small and medium-sized Canadian businesses. Thanks to agreements and strategic alliances with leading partners, it plans to consolidate this leadership effectively to support its development.

TABLE 7 – BALANCE SHEETS ASSETS

as at October 31 (in millions of dollars)	2001	2000	1999	01/00 growth
Cash resources and securities	$ 2,506	$ 1,669	$ 2,049	50 %
Personal loans	3,501	2,834	2,390	24
Residential mortgage loans	6,938	5,857	5,135	18
Commercial mortgage loans	876	1,059	972	(17)
Commercial and other loans	2,124	1,759	1,446	21
Assets purchased under reverse repurchase agreements	650	638	918	2
Total loans	**14,089**	12,147	10,861	**16**
Other assets	1,101	925	734	19
Balance sheets assets	**$ 17,696**	$ 14,741	$ 13,644	**20 %**
Cash resources and securities as a % of balance sheets assets	14.2 %	11.3 %	15.0 %	
Loans as a % of balance sheets assets	79.6 %	82.4 %	79.6 %	

GEOGRAPHIC DISTRIBUTION OF LOANS
(as a percentage)



No commercial loan to a single borrower may exceed $40 million, or $20 million for mortgage financing projects. No departures from this policy are authorized without prior approval by the Risk Management Committee of the Board of Directors in accordance with the Bank's risk management policies.

Insurance and guarantees At the end of 2001, 59% of the Bank's residential mortgage loans was insured by the Canada Mortgage and Housing Corporation (CMHC). This insured portfolio enables the Bank to decrease its overall credit risk and improve its capital ratios.

A wide range of commercial properties, shopping centres and office buildings as well as plants, warehouses and industrial condominiums secured commercial mortgages.

Most of the investment loans are secured by an average of four to five mutual funds, providing good diversification of risk. The value of these investments must respect the terms and conditions of loan agreements at all times. A large proportion of the Bank's loan portfolio is thus insured or secured by assets pledged as collateral by the borrowers.

Loan portfolio evolution

The addition of Quebec Scotiabank branches and the good level of retention of acquired business have substantially contributed to increasing the Bank's loan portfolio in 2001.

Over the long term, the internal growth of the Bank's activities is a significant factor in increasing the volume and improving the quality of its loan portfolios.

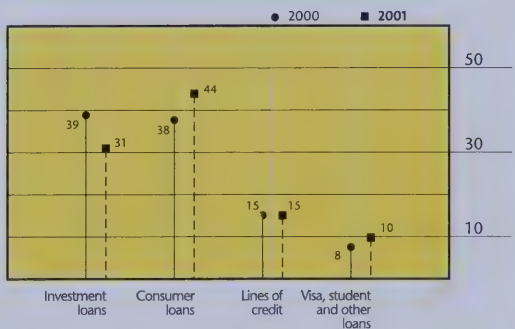
Personal loans On October 31, 2001, the personal loan portfolio stood at $3.5 billion, an increase of 23.5% compared with $2.8 billion on the same date in the year 2000. Consumer loans and investment loans represent 44% and 31% respectively of the personal loan portfolio of the Bank.

The large increase in the proportion of consumer loans in the Bank's total personal loans is mainly attributable to the acquisition of Scotiabank branches, the internal growth of Retail Banking and the substantial increases in the number of retailers offering point-of-sale financing.

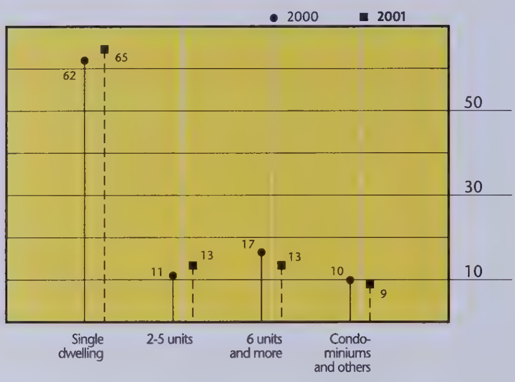
Residential mortgage loans On October 31, 2001, the value of residential mortgage loans held by the Bank was $6.9 billion, equal to 51.6% of its loan portfolio compared with 50.9% on October 31, 2000. These loans increased by $1.1 billion or 18.5% in 2001 compared with 2000. The gross increase in residential mortgage loans before the securitization of $314 million of these loans in 2001 was $1.4 billion. These increases mainly result from the addition of the Quebec Scotiabank branches and the strength of the Canadian real estate market.

The Bank maintained its loan insurance program for its residential mortgage loans. On October 31, 2001, 59% of these loans were insured by the CMHC, compared with 56% in 2000. This policy is consistent with the Bank's financial management strategy which by insuring a large proportion of its residential mortgage loans, the Bank maintains its capacity to pursue its securitization activities and thus optimally manage its cash resources, improve its capital ratios and simultaneously reduce credit risks associated with this type of loan. Buildings with five units or less comprise 78% of the volume of residential mortgages outstanding, a significant number of which are single-family units, with an average loan balance of $64,500.

PERSONAL LOAN PORTFOLIO MIX
(as a percentage)



RESIDENTIAL MORTGAGE LOANS BY PROPERTY TYPE
(as a percentage)



Commercial mortgage loans The Bank's commercial mortgage loan portfolio stood at $0.9 billion at the end of 2001, compared with $1.1 billion on October 31, 2000.

The Bank has gradually been reducing its commercial mortgage loan portfolio in the past few years. This strategy, which also includes securitization, enables the Bank to better manage capital and risks associated with this type of loan.

In 2001, over $200 million of commercial mortgage loans were sold, in the first commercial mortgage backed securities issue involving a Canadian bank.

On October 31, 2001, Ontario represented 55% of the commercial mortgage loan portfolio, Quebec 33% and western Canada 12%.

Commercial loans On October 31, 2001, the Bank held a quality commercial loan portfolio valued at $2.1 billion, versus $1.8 billion on October 31, 2000, equal to an increase of 20.8%.

The sizeable increase in the commercial loan portfolio of the Bank is a result of its business strategy. This internal growth, enhanced by a set of measures and strategic initiatives such as partnerships with other lending institutions, remains the principal engine for growth of this portfolio in the coming years.

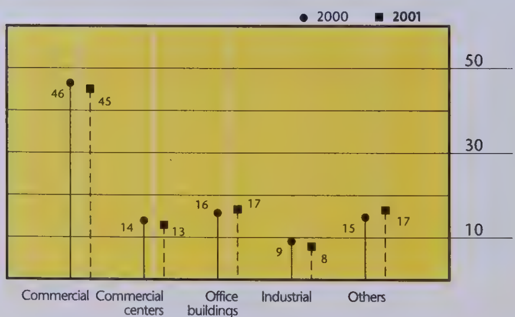
Commercial loans are well diversified by industry. Whereas 25% of these loans are in the manufacturing sector, an equivalent share, or 24%, finances numerous sectors such as agriculture, social services and health, mining, fisheries and certain other industries.

In 2001, management of commercial loans was done by two lines of business: Retail Banking managed loans of less than one million dollars through its network of branches, while Commercial and Corporate Banking focussed its efforts on managing loans of one million dollars and over at its specialized credit centres.

Impaired loans

The economic context and the substantial growth of the Bank's activities have played a determining role in the overall increase in impaired loans in 2001. Commercial borrowers in some regions where the Bank is well established were the hardest hit by the economic slowdown.

COMMERCIAL MORTGAGE LOANS BY PROPERTY TYPE
(as a percentage)



COMMERCIAL LOANS BY INDUSTRY
(as a percentage)

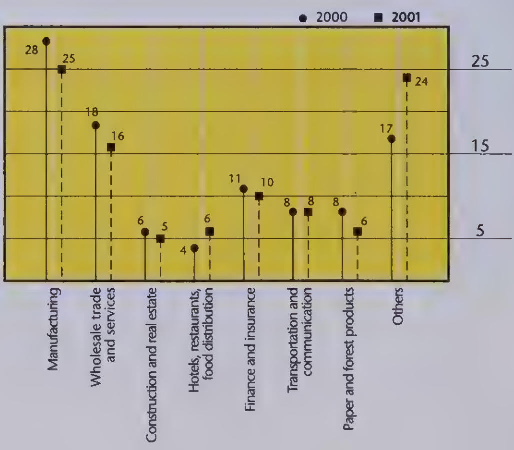


TABLE 8 – IMPAIRED LOANS

as at October 31 (in millions of dollars)	2001 Gross	2001 Net	2000 Gross	2000 Net	1999 Gross	1999 Net
Personal loans	$ 23.1	$ 16.6	$ 13.8	$ 9.9	$ 12.2	$ 9.3
Residential mortgage loans	21.1	16.1	26.6	22.4	25.1	21.1
Commercial mortgage loans	37.2	21.3	43.4	27.0	44.6	31.2
Commercial and other loans	78.2	57.1	38.3	27.1	22.3	16.6
Total – impaired loans	**$ 159.6**	**111.1**	$ 122.1	86.4	$ 104.2	78.2
General provision		(85.0)		(80.0)		(80.0)
Total – net impaired loans		**$ 26.1**		$ 6.4		$ (1.8)
As a % of total loans and bankers' acceptances		**0.2 %**		0.1 %		0.0 %

Gross impaired loans totalled $159.6 million at October 31, 2001, for an increase of $37.5 million from October 31, 2000. Specific and general provisions increased by $17.8 million from October 31, 2000 to $133.5 million at October 31, 2001.

Net impaired loans were $26.1 million or 0.2% of total loans and bankers' acceptances at the end of the year, compared with $6.4 million and 0.1% at October 31, 2000. The Bank's general provision was $85.0 million at October 31, 2001, compared with $80.0 million at October 31, 2000.

○ Assets under administration

Assets under administration consist of mortgage loans under management related to securitization activities, assets held by customers, for which the Bank provides services such as investment, trading, administrative services and collection of investment income, as well as assets of self-directed plans offered by its subsidiary B2B Trust.

The Bank, through its subsidiary Laurentian Bank Securities Inc. and its joint venture interest in BLC–Edmond de Rothschild Asset Management Inc., also manages personal, institutional and mutual fund portfolios.

On October 31, 2001, the assets administered by the Bank stood at $13.1 billion compared with $14.2 billion on October 31, 2000. The slight increase in mutual fund assets was offset by reductions in the market value of self-directed registered retirement plans, trust assets and clients' brokerage assets.

○ Deposits

Total deposits were $14.5 billion on October 31, 2001, compared with $12.2 billion on the same date in 2000, equal to an increase of 18.6%. Personal deposits, including deposits from the acquired Quebec Scotiabank branches, increased by $1.1 billion in 2001 to reach $11.2 billion, versus $10.1 billion in 2000.

The Bank maintains its leadership in the independent financial advisor market through its B2B Trust and Agency Banking line of business. In 2001, the average deposit portfolio generated by this line of business was $4.8 billion. In addition, the average deposit portfolio of Retail Banking was $7.7 billion in 2001.

Personal deposits represented 77.2% of total deposits on October 31, 2001, compared with 82.2% on October 31, 2000. Institutional and commercial deposits also increased by $1.1 billion to reach $3.3 billion on October 31, 2001, up from $2.2 billion in 2000.

TABLE 9 – ASSETS UNDER ADMINISTRATION

as at October 31 (in millions of dollars)	2001	2000	1999	01/00 growth
Mortgage loans under management	$ 2,289	$ 2,432	$ 1,722	(6)%
Mutual funds	1,238	1,164	1,137	6
SDRRSPs and RRIFs	6,927	7,677	6,517	(10)
Clients Brokerage Assets	910	1,170	616	(22)
Personal trust	636	598	531	6
Corporate trust	1,053	1,167	1,221	(10)
Total	**$ 13,053**	$ 14,208	$ 11,744	**(8)%**

TABLE 11 – RISK-WEIGHTED ASSETS

as at October 31		2001		2000	
(in thousands of dollars)	BIS weighting factor	**Gross notional amount**	**Risk-weighted amount**	Gross notional amount	Risk-weighted amount
Balance sheets assets					
Cash and deposits with Bank of Canada	0 %	$ 70,469	$ —	$ 57,600	$ —
Deposits with other financial institutions	20 %	105,441	21,088	193,434	38,687
Cheques and other items in transit, net	20 %	8,437	1,687	29,177	5,835
Securities issued or guaranteed by Canada or provinces	0 %	2,062,732	—	1,227,490	—
Securities issued or guaranteed by municipal corporations	20 %	36,093	7,219	24,350	4,870
Other securities	100 %	207,228	207,228	113,861	113,861
	0 %	15,208	—	22,759	—
Mortgage loans					
CMHC-insured	0 %	4,079,838	—	3,300,614	—
Other insured[(1)]	0 %	184,748	—	68,825	—
Other insured[(1)]	50 %	20,528	10,264	7,647	3,824
Residential four units and less	50 %	1,719,279	859,640	1,573,213	786,607
Residential more than four units	100 %	933,876	933,876	906,587	906,587
Non-residential	100 %	875,748	875,748	1,059,144	1,059,144
Other loans	0 %	966,194	—	810,448	—
	20 %	1,303	260	2,017	403
	100 %	5,307,919	5,307,919	4,418,705	4,418,705
Other assets	100 %	1,010,475	1,010,475	854,256	854,256
Goodwill and other	0 %	90,308	—	71,191	—
General provision for credit risk			82,643		62,594
Total – balance sheets assets		**$17,695,824**	**$ 9,318,047**	$ 14,741,318	$ 8,255,373
Off-balance sheet items					
Derivative financial instruments			65,177		37,441
Guarantees and letters of credit			62,352		53,515
Total – risk-weighted assets – BIS			**$ 9,445,576**		$ 8,346,329

(1) Less the guarantee-related adjustment.

At the beginning of the 2002 financial year, in November 2001, the Bank redeemed its 8.75% Class A Preferred Shares Series 6 in the amount of $60 million and completed a public offering of 4 million 6.0% Non-Cumulative Class A Preferred Shares Series 9 at a price of $25 per share for an aggregate amount of $100 million. The Bank increased total preferred shares by $40 million for a cumulative total of $200.4 million, and reduced the weighted average dividend on its preferred shares by 124 basis points, from a weighted average dividend of 8.12% at October 31, 2000 to 6.88% at October 31, 2001 on a pro-forma basis. As a result, the Bank's pro-forma BIS Tier I and Total capital ratios as at October 31, 2001, would have been 8.5% and 13.0%, respectively.

The Bank significantly reinforced its capital in 2001. This strength is important to protect the Bank's depositors and creditors from risks inherent in its activities, and allows the Bank to seize attractive business opportunities. It also contributes to maintaining a favourable credit standing.

Throughout 2002 and in following years, the Bank plans to continue to generate Tier I capital required for the growth of its lines of business mainly through net income, but also by applying increasing rigour in its policies and practices for efficient balance sheet management, in part through application of its securitization programs.

Dividends

The Bank's dividend policy provides for the payout of between 30% and 40% of the net available income to its common shareholders. The Bank increased its quarterly dividend on common shares once during the year, by 8%, bringing the dividend to $0.27 from $0.25. Common shareholders received a dividend of $0.27 per share at the end of each of the last three quarters of 2001 for a total of $1.06 per common share or $24.1 million, up from $0.94 per common share, or $18.9 million in 2000.

On December 4, 2001, the Board of Directors increased the quarterly dividend on the Bank's common shares from $0.27 to $0.29 payable on February 1, 2002 to shareholders of record on January 2, 2002.

E R R A T U M

To readers of the Annual Report:

Please note that, due to a printing error, pages 40 and 41 of the 2001 Annual Report of Laurentian Bank of Canada should be replaced by the enclosed pages 40 and 41.

We apologize for any inconvenience.

Management

LAURENTIAN BANK
OF CANADA

TABLE 10 – DEPOSITS

as at October 31 (in millions of dollars)	2001	2000	1999	01/00 growth
Deposits by individuals				
Notice and demand	$ 1,701	$ 1,412	$ 1,455	20 %
Fixed date	9,503	8,654	6,567	10
Sub-total – deposits by individuals	**11,204**	10,066	8,022	**11**
As a % of total deposits	**77.2 %**	82.2 %	76.6 %	
Commercial and money market deposits				
Notice and demand	618	438	379	41
Fixed date	2,696	1,735	2,069	55
Sub-total – commercial and money market deposits	**3,314**	2,173	2,448	**53**
As a % of total deposits	**22.8 %**	17.8 %	23.4 %	
Total deposits	**$ 14,518**	$ 12,239	$ 10,470	**19 %**

Capital

Regulatory capital of the Bank is essentially comprised of common shareholders' equity, preferred shares, non-controlling interest in a subsidiary and debentures. The Bank is constantly improving its capital base, which represents an essential factor in assessing its strength and security in relation to the risks associated with its activities.

Tables 11 and 12 present the risk-weighted assets and the regulatory capital used as a base to calculate the ratios established by the Bank of International Settlements (BIS).

On October 31, 2001, the total capital of the Bank stood at $1,222 million, corresponding to an increase of $213 million compared with $1,009 million on October 31, 2000.

The BIS Tier 1 and Total capital ratios increased to 8.1% and 12.4%, respectively, from 7.7% and 11.3% a year ago. The total asset to BIS capital leverage ratio improved to 15.2 from 15.7 at October 31, 2000. The Bank also monitors the common equity to risk-weighted assets ratio. This ratio was 7.0% at October 31, 2001, up from 6.0% at October 31, 2000.

During the year, the Bank issued 2.7 million common shares at an average price of $24.76 for total proceeds of $67.2 million. The Bank completed a public offering of 2.5 million common shares at a price of $25.40 per share for net proceeds of $60.8 million and the Bank also issued 214,196 shares under its stock option plan. There were 22,867,940 shares outstanding as at October 31, 2001 and the Bank's book value per common share was $27.08, an increase of $2.18 since October 31, 2000.

In July 2001, B2B Trust completed its IPO and issued 6,394,000 shares at $9 per share for total net proceeds of $53.1 million; as a result, a dilution gain of $12.4 million and non-controlling interest in a subsidiary of $40.6 million were recorded by the Bank in 2001. The Bank holds a 74.3%-interest in B2B Trust at October 31, 2001 and its non-controlling interest has increased to $42.7 million as at October 31, 2001.

During the year, the Bank also completed a public offering of $150 million of 6.50% Series 9 Subordinated Debentures due in 2011 in two tranches, $100 million on November 1, 2000 and $50 million on June 1, 2001 for total net proceeds of $146.8 million. In July 2001, the Bank redeemed its 10.25% Subordinated Debentures Series 1 in the amount of $42.2 million on their due date. In August 2001, the Bank redeemed all of its 7.40% Subordinated Debentures Series 4, due in 2003, in the amount of $29.6 million. In October 2001, the Bank redeemed its 10.75% Subordinated Debentures Series 2 in the amount of $25 million on their due date. As a result of these transactions, the Bank increased total debentures by a net amount of $53.2 million and reduced the weighted average interest cost of its debentures by 87 basis points, from 7.61% at October 31, 2000 to 6.74% at October 31, 2001. Subordinated Debentures amounting to $400.0 million were outstanding as at October 31, 2001 compared to $346.8 million a year ago.

TABLE 11 – RISK-WEIGHTED ASSETS

as at October 31		2001		2000	
(in thousands of dollars)	BIS weighting factor	**Gross notional amount**	**Risk-weighted amount**	Gross notional amount	Risk-weighted amount
Balance sheets assets					
Cash and deposits with Bank of Canada	0 %	$ 70,469	$ —	$ 57,600	$ —
Deposits with other financial institutions	20 %	105,441	21,088	193,434	38,687
Cheques and other items in transit, net	20 %	8,437	1,687	29,177	5,835
Securities issued or guaranteed by Canada or provinces	0 %	2,062,732	—	1,227,490	—
Securities issued or guaranteed by municipal corporations	20 %	36,093	7,219	24,350	4,870
Other securities	100 %	207,228	207,228	113,861	113,861
	0 %	15,208	—	22,759	—
Mortgage loans					
CMHC-insured	0 %	4,079,838	—	3,300,614	—
Other insured(1)	0 %	184,748	—	68,825	—
Other insured(1)	50 %	20,528	10,264	7,647	3,824
Residential four units and less	50 %	1,719,279	859,640	1,573,213	786,607
Residential more than four units	100 %	933,876	933,876	906,587	906,587
Non-residential	100 %	875,748	875,748	1,059,144	1,059,144
Other loans	0 %	966,194	—	810,448	—
	20 %	1,303	260	2,017	403
	100 %	5,307,919	5,307,919	4,418,705	4,418,705
Other assets	100 %	1,010,475	1,010,475	854,256	854,256
Goodwill and other	0 %	90,308	—	71,191	—
General provision for credit risk			82,643		62,594
Total – balance sheets assets		**$17,695,824**	**$ 9,318,047**	$ 14,741,318	$ 8,255,373
Off-balance sheet items					
Derivative financial instruments			65,177		37,441
Guarantees and letters of credit			62,352		53,515
Total – risk-weighted assets – BIS			**$ 9,445,576**		$ 8,346,329

(1) Less the guarantee-related adjustment.

At the beginning of the 2002 financial year, in November 2001, the Bank redeemed its 8.75% Class A Preferred Shares Series 6 in the amount of $60 million and completed a public offering of 4 million 6.0% Non-Cumulative Class A Preferred Shares Series 9 at a price of $25 per share for an aggregate amount of $100 million. The Bank increased total preferred shares by $40 million for a cumulative total of $200.4 million, and reduced the weighted average dividend on its preferred shares by 124 basis points, from a weighted average dividend of 8.12% at October 31, 2000 to 6.88% at October 31, 2001 on a pro-forma basis. As a result, the Bank's pro-forma BIS Tier I and Total capital ratios as at October 31, 2001, would have been 8.5% and 13.0%, respectively.

The Bank significantly reinforced its capital in 2001. This strength is important to protect the Bank's depositors and creditors from risks inherent in its activities, and allows the Bank to seize attractive business opportunities. It also contributes to maintaining a favourable credit standing.

Throughout 2002 and in following years, the Bank plans to continue to generate Tier I capital required for the growth of its lines of business mainly through net income, but also by applying increasing rigour in its policies and practices for efficient balance sheet management, in part through application of its securitization programs.

Dividends

The Bank's dividend policy provides for the payout of between 30% and 40% of the net available income to its common shareholders. The Bank increased its quarterly dividend on common shares once during the year, by 8%, bringing the dividend to $0.27 from $0.25. Common shareholders received a dividend of $0.27 per share at the end of each of the last three quarters of 2001 for a total of $1.06 per common share or $24.1 million, up from $0.94 per common share, or $18.9 million in 2000.

On December 4, 2001, the Board of Directors increased the quarterly dividend on the Bank's common shares from $0.27 to $0.29 payable on February 1, 2002 to shareholders of record on January 2, 2002.

TABLE 11 – RISK-WEIGHTED ASSETS

as at October 31 (in thousands of dollars)	BIS weighting factor	**2001** Gross notional amount	**2001** Risk-weighted amount	2000 Gross notional amount	2000 Risk-weighted amount
Balance sheets assets					
Cash and deposits with Bank of Canada	0 %	$ 70,469	$ —	$ 57,600	$ —
Deposits with other financial institutions	20 %	105,441	21,088	193,434	38,687
Cheques and other items in transit, net	20 %	8,437	1,687	29,177	5,835
Securities issued or guaranteed by Canada or provinces	0 %	2,062,732	—	1,227,490	—
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Off-balance sheet items					
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Guarantees and letters of credit			62,352		53,515
Total – risk-weighted assets – BIS			**$ 9,445,576**		$ 8,346,329

(1) Less the guarantee-related adjustment.

At the beginning of the 2002 financial year, in November 2001, the Bank redeemed its 8.75% Class A Preferred Shares Series 6 in the amount of $60 million and completed a public offering of 4 million 6.0% Non-Cumulative Class A Preferred Shares Series 9 at a price of $25 per share for an aggregate amount of $100 million. The Bank increased total preferred shares by $40 million for a cumulative total of $200.4 million, and reduced the weighted average dividend on its preferred shares by 124 basis points, from a weighted average dividend of 8.12% at October 31, 2000 to 6.88% at October 31, 2001 on a pro-forma basis. As a result, the Bank's pro-forma BIS Tier I and Total capital ratios as at October 31, 2001, would have been 8.5% and 13.0%, respectively.

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On December 4, 2001, the Board of Directors increased the quarterly dividend on the Bank's common shares from $0.27 to $0.29 payable on February 1, 2002 to shareholders of record on January 2, 2002.

TABLE 12 – REGULATORY CAPITAL – BIS

as at October 31 (in millions of dollars)	2001	2000	1999	01/00 growth
Common shares	$ 234.2	$ 167.0	$ 167.0	40 %
Retained earnings	385.1	334.7	285.9	15
Non-cumulative preferred shares	160.0	160.0	160.0	—
Non-controlling Tier I interests in subsidiaries	46.6	4.4	4.6	959
Less goodwill	(62.0)	(23.3)	(19.4)	166
Total – Tier I capital (A)	**763.9**	642.8	598.1	**19**
Permanent preferred shares	0.4	0.4	0.4	—
Subordinated debentures[1]	380.5	267.8	218.7	42
General provision for credit risk	82.7	62.6	55.7	32
Non-controlling interest in subsidiaries (hybrid capital instruments)	1.4	1.4	1.9	—
Less investment in non-consolidated corporations, securizations, and other	(58.7)	(29.9)	(51.9)	96
Total – Tier II capital	**406.3**	302.3	224.8	**34**
Regulatory capital – BIS (B)	**$ 1,170.2**	$ 945.1	$ 822.9	**24 %**
Total risk-weighted assets – BIS (Table 11) (C)	$ 9,445.6	$ 8,346.3	$ 7,422.7	
Tier I BIS capital ratio (A/C)	8.1 %	7.7 %	8.1 %	
Total BIS capital ratio (B/C)	12.4 %	11.3 %	11.1 %	
Financial leverage	15.2 X	15.7 X	16.7 X	
Common equity as a percentage of risk-weighted assets – BIS	7.0 %	6.0 %	6.1 %	

[1] *Debentures are amortized on a straight-line basis over a five-year period prior to maturity.*

Dividends paid on preferred shares totalled $13.5 million in 2001, versus $13.9 million in 2000.

○ **Impact of new accounting standards**

During the year, the Canadian Institute of Chartered Accountants published two new standards: Section 1581 "Business Combinations" and Section 3062 "Goodwill and Other Intangible Assets". The description of these new accounting standards on the Bank is presented in Note 1r) of the consolidated financial statements.

SEGMENTED RESULTS BY LINE OF BUSINESS

In 2001 and 2000, the Bank had three lines of business: Retail Banking, B2B Trust and Agency Banking, and Commercial and Corporate Banking.

As part of its strategy of stimulating growth and improving efficiency, the Bank has set the following objectives for its lines of business and has achieved significant progress, particularly in 2001.

- ○ Improve the efficiency of Retail Banking, which generates over 60% of total revenue, to improve its contribution to net income.
- ○ Accelerate the growth of B2B Trust and Agency Banking, which operates with greater efficiency than the Bank itself and the banking industry in general, with an efficiency ratio of close to 50%.
- ○ Pursue profitable and sustainable growth in Commercial and Corporate Banking, which contributes slightly more than one third of the net income of the Bank.

TABLE 13 – SEGMENTED RESULTS

for the years ended October 31	**2001**			2000		
(on a taxable equivalent basis, as a percentage)	**Total revenue**	**Net income**	**Efficiency ratio[1]**	Total revenue	Net income	Efficiency ratio[1]
Retail Banking	**62.3 %**	**34.5 %**	**79.4 %**	60.0 %	23.4 %	84.7 %
B2B Trust & Agency Banking	**21.1 %**	**30.1 %**	**54.3 %**	22.0 %	35.7 %	53.8 %
Commercial and Corporate Banking	**16.6 %**	**35.4 %**	**33.9 %**	18.0 %	40.9 %	31.7 %

[1] *Excluding amortization of goodwill.*

TABLE 14 – RETAIL BANKING – SEGMENTED RESULTS

for the years ended October 31 (on a taxable equivalent basis, in millions of dollars)	2001	2000
Net interest income	$ 275.6	$ 202.2
Non-interest income	87.5	72.7
Total revenue	**363.1**	274.9
Provision for credit losses	18.0	13.7
Non-interest expenses	288.2	232.8
Net income before income taxes	**56.9**	28.4
Income taxes	24.4	11.3
Net income before amortization of goodwill	**32.5**	17.1
Amortization of goodwill(1)	2.7	0.9
Net income	**$ 29.8**	$ 16.2

(1) Included in Non-Interest Expenses at the note 21 in 2001 Consolidated Financial Statements of the Bank.

For the year 2001, net income contributions were 34.5% from Retail Banking, 30.1% from B2B Trust and Agency Banking and 35.4% from Commercial and Corporate Banking. The net income contributions were 23.4%, 35.7% and 40.9% respectively in 2000.

RETAIL BANKING

Net income of Retail Banking was $29.8 million in 2001 versus $16.2 million in 2000 and its efficiency ratio excluding goodwill amortization improved from 84.7% in 2000 to 79.4% in 2001 (from 85.0% to 80.4% including goodwill amortization). The completed integration of the 43 Quebec Scotiabank branches in mid 2001 has generated the expected synergies, with almost a 5% improvement in the efficiency ratio. Total revenue increased by 32.1% to reach $363.1 million in 2001. Average assets rose by 23.4% in 2001 and net interest income benefited from a better mix and better lending and deposit fee income. In 2001, the Retail Banking line of business continued to implement its SAVA program aimed at increasing growth and improving efficiency.

TABLE 15 – B2B TRUST AND AGENCY BANKING – SEGMENTED RESULTS

for the years ended October 31 (on a taxable equivalent basis, in millions of dollars)	2001	2000
Net interest income	$ 90.9	$ 76.3
Non-interest income	32.4	24.7
Total revenue	**123.3**	101.0
Provision for credit losses	5.5	2.7
Non-interest expenses	66.9	54.3
Net income before income taxes and non-controlling interest	**50.9**	44.0
Income taxes	22.7	19.2
Non-controlling interest in net income of subsidiary	2.0	—
Net income before amortization of goodwill	**26.2**	24.8
Amortization of goodwill(1)	0.2	—
Net income	**$ 26.0**	$ 24.8

(1) Included in Non-Interest Expenses at the note 21 in 2001 Consolidated Financial Statements of the Bank.

TABLE 16 – COMMERCIAL AND CORPORATE BANKING – SEGMENTED RESULTS

for the years ended October 31 (on a taxable equivalent basis, in millions of dollars)	2001	2000
Net interest income	$ 60.7	$ 55.7
Non-interest income	36.3	27.0
Total revenue	**97.0**	82.7
Provision for credit losses	10.7	8.6
Non-interest expenses	32.9	26.2
Net income before income taxes	**53.4**	47.9
Income taxes	22.7	19.4
Net income before amortization of goodwill	**30.7**	28.5
Amortization of goodwill(1)	0.2	0.1
Net income	**$ 30.5**	$ 28.4

(1) Included in Non-Interest Expenses at the note 21 in 2001 Consolidated Financial Statements of the Bank.

B2B TRUST AND AGENCY BANKING

This line of business is composed of B2B Trust, a federally chartered regulated financial institution, subsidiary of the Bank, that supplies generic and complementary banking and financial products to independent financial advisors, non-bank financial institutions and retailers across Canada; and the Agency Banking division, which distributes residential mortgages, term deposits, Visa cards, banking packages and other products.

Total revenue increased by 22.1% to $123.3 million in 2001. The efficiency ratio excluding goodwill amortization increased slightly in 2001 to 54.3% from 53.8% in 2000 (to 54.6% from 53.8% including goodwill amortization). The contribution to net income of B2B Trust and Agency Banking increased to $26.0 million in 2001 from $24.8 million in 2000. The 2001 net contribution was negatively affected by two factors: the $1.1 million impact resulting principally from the Ontario corporate income tax rate reduction and $2.0 million of B2B Trust net income attributable to non-controlling interest. Excluding the tax item, B2B Trust increased its profitability in 2001 and its net income was $21.6 million or $1.05 per share compared with $15.7 million or $0.85 per share in 2000. Its return on shareholders' equity was 15.0% and its efficiency ratio was 47.8% for the year ended October 31, 2001 compared with 11.2% and 55.7% in 2000. Including the item, net income of B2B Trust for 2001 stood at $20.5 million, or $0.99 per common share.

B2B Trust completed its IPO in 2001, with a total of 6.4 million common shares issued at $9 per share for net proceeds of $53.1 million. Its Tier I and Total capital ratios reached 13.3% and 18.2% respectively as at October 31, 2001.

B2B Trust has a promising future and is well positioned to accelerate its growth.

COMMERCIAL AND CORPORATE BANKING

Net income of Commercial and Corporate Banking rose to $30.5 million in 2001, versus $28.4 million in 2000. The efficiency ratio excluding goodwill amortization was 33.9% in 2001 versus 31.7% in 2000 (34.2% from 31.9% including goodwill amortization).

Total revenue increased by 17.3% to reach $97.0 million in 2001. The average loan portfolio grew by 2.2% (8.8% before the securitization of $200.2 million in commercial mortgage loans during 2001), and fee income grew by 34.4% during the year. The Commercial and Corporate Banking sector increased its profitability on the strength of strong growth in fee income partially offset by an increase in the provision for credit losses.

Risk management is critically important to Laurentian Bank, at all levels of the organization. In 2001, substantial resources were allocated to putting integrated risk management in place.

MANDATE – INTEGRATED RISK MANAGEMENT

- Establish an integrated risk management framework that promotes identification, measurement and evaluation of market risks (including structural risk, foreign exchange and liquidity risk), capital management, credit risk and operating risks, as part of strategic planning and performance evaluation.
- Introduce processes, norms and standards for operating risk management to improve the quality of service and the continuity of operations, and to manage confidential information.

RISK MANAGEMENT FRAMEWORK

The integrated risk management framework (the "Framework") constitutes one of the Bank's main risk attenuation measures. The Framework provides the Bank with the tools to:

- identify and evaluate, on an ongoing basis, the major risks that the Bank faces, along with their possible repercussions on its situation;
- ensure that the risk management process abides by best practices of sound and prudent management;
- establish sound and prudent risk limits and risk management policies; and
- establish and apply efficient internal controls that allow prudent control of these risks.

The Framework is supervised by the Board of Directors, and the following Board committees: Nominating and Internal Governance, Human Resources, Risk Management and Audit, and Bank Management.

Within the structure of the Framework, the provisions of the Bank Act as well as the Standards of sound business and financial practices of the Canada Deposit Insurance Corporation, the guidelines of the Office of the Superintendent of Financial Institutions and the legislation applicable to the operations of the Bank and its subsidiaries are duly observed.

PRINCIPAL RESPONSIBILITIES RELATED TO INTEGRATED RISK MANAGEMENT

Beyond the regular supervision of risks by managers and executives of the Bank's lines of business and corporate sectors, the following Committees form an integral part of the risk management process:

BOARD OF DIRECTORS COMMITTEES

Board of Directors
Ensures that the Bank has an effective strategic management process that takes risks into account
Nominating and Governance Committee
Establishes orientation and training programs for Board members • Evaluates the efficiency with which the Board fulfils its obligations • Establishes attributions and powers of Board committees
Human Resources Committee
Ensures that the compensation plan is compatible with the attainment of objectives and prudent management of activities and risks • Develops a continuity plan for senior management • Approves rules of conduct and behaviour that take risks into account
Risk Management Committee
Ensures that the Bank has an adequate risk management process that covers identification, evaluation and management of risks and the formulation of adequate policies pertaining to market risk, capital management, credit risk and operational risks
Audit Committee
Ensures that the Bank has a control system that fosters adequate management of activities and risks.

COMMITTEES OF THE MANAGEMENT OF THE BANK

Review Committee

Monitors transactions of entities related to the Bank

Risk Management Committee

Evaluates and reviews important risk management policies annually • Follows up on deviations and scrutinizes new products • Ensures that risks are managed in keeping with established policies

Credit Committee

Defines parameters for granting credit and monitors their application • Authorizes loans within the limits of its latitudes • Reviews impaired loans and watchlist loans • Reviews bad debts and credit losses

Subsidiaries and Compliance Committee

Monitors compliance with operating limits related to liquidity and investment management, interest rate risk and foreign exchange risk • Ensures that the Bank and its subsidiaries have applied an approach to ensure compliance with applicable legislation and regulatory provisions • Reviews the internal auditors' activities concerning subsidiaries and compliance with the CDIC Standards of Practice

Operating Risk Management Committee

Evaluates and reviews operating risk management policies annually • Reviews the results of self-evaluation exercises • Ensures the implementation and compliance of control procedures

Asset and Liability Management Committee

Ensures compliance with operating latitudes related to liquidity and investment management, along with interest rate and foreign exchange risk • Recommends hedge strategies to maintain the risk level within limits approved by the Board of Directors • Recommends positioning strategies for loan and liquidity (or balance sheet) portfolios to adjust to market movements • Develops financial management and treasury policies

Finance Committee

Reviews the economic situation • Tracks changes in volumes, product pricing and the competition • Approves pricing policies, promotions and product campaigns • Establishes service charges and rate charts

Liquidity Follow-up Committee

Follows up liquidities of the Bank and its subsidiaries • Assesses financing requirements • Reviews the liquidity contingency plan

Investment Committee

Reviews and forecasts economic conditions and those of financial markets in which the Bank operates • Develops investment strategies for the various primary, secondary and tertiary liquidity portfolios of the Bank in accordance with Treasury management policies.

RISK INTEGRATION – RISK CAPITAL

The Bank initiated the implementation of a model that allows it to quantify risk according to a common measure of capital at risk (CAR). This methodology allows the Bank to group and manage the various risk components to calculate the maximum potential loss that the organization or a sector may incur with a degree of predetermined probability and for a predefined period of time. This process is intended to define the risk elements in the risk-return ratio, which contributes to evaluating the economic profit and the increase in the value of shareholders' equity.

NATURE OF RISK

The Bank has grouped risks associated with its operations into four principal categories: market risk, capital management, credit risk and operating risk.

Market risk management

Market risk is the risk of financial loss due to movements in interest and foreign exchange rates, as well as bond and equity prices for balance sheet and off-balance sheet financial instruments. The level of market risk to which the Bank is exposed varies constantly, according to market conditions, predicted swings in market prices and market trends, and the trading and banking portfolio mix of the Bank.

For risk management purposes, the Bank establishes policies and ceilings to enable it to oversee and limit exposure to market risks arising from its trading and asset and liability management activities. Detailed reports on risk and monitoring of the limits are produced daily.

The Bank has initiated the implementation of a market risk management and follow-up structure that includes the use of VAR (value at risk) methodology for all of its treasury portfolios.

Structural risk management Structural risk is the potential negative impact of interest rate movements on the Bank's results and economic value. The primary sources of structural risk to which the Bank is typically exposed are repricing risk, yield curve risk, basis risk and optionality. *Repricing risk* occurs when there are differences in assets, liabilities and off-balance sheet instruments where maturity or modification date changes occur in a given period. These gaps result mainly from clients' maturity preferences. *Yield curve* risk affects the market value of portfolios and occurs when the rate of return does not match a given return yield curve. *Basis risk* occurs when differentials between various index prices change. *Optionality* stems from the impact of interest rate fluctuations and the degree of volatility on the market value of options held in the Bank's portfolios. These options, called "embedded", enable the Bank's clients to modify their loan and deposit maturity profile. The most common embedded options are the reimbursement characteristics of certain term deposit products and the prepayment options of certain loan products.

Management of interest rate risk requires rigorous monitoring of four distinct portfolio groups:

- *Banking activities,* which are affected by customer choices, product availability and term-dependent pricing policies;
- *Investment activities,* comprised of marketable securities and institutional funding composed of primary and secondary liquidity portfolios, as well as a positioning portfolio;
- *Securities trading portfolios,* that are marked-to-market on a daily basis in line with rate movements;
- *Specific and general hedging* transactions which help the Bank control overall interest rate risk within stringent internal limits.

Both the dynamic management and disciplined control of structural risk contribute to maintaining the Bank's profitability and to preserving common shareholders' equity. The objective of bank portfolio management (other than trading) is to achieve an equilibrium between the increase in interest income and the reduction of the negative impact of interest rate movements. To attain this objective, the risk profile of the portfolio is adjusted by means of interest rate swaps and other derivative instruments, taking into account the projected yield curve of interest rate variations and the current level of risk assumed.

Structural risk is managed by the Asset and Liability Management Committee in accordance with relative ceilings of economic value and interest rate risk. Risk ceilings are calculated based on immediate and sustained parallel movements of 100 basis points of rates for all maturities. Economic value risk measures the net negative impact on the present value of balance sheet and off-balance sheet assets and liabilities. Interest income risk measures the negative impact on net interest income from interest rate movements over the next twelve months. Portfolio positions are reviewed weekly by the asset and liability management committee, which is in charge of establishing the Bank's positioning with regard to anticipated interest rate movements and recommending hedging of all undesirable or unforeseen interest rate risk.

Structural risk management ensues from a weekly spread report. The Bank's interest rate gap position at October 31, 2001 appears in Note 19b) of the Consolidated Financial Statements. The net sensitivity gap for the next twelve months is $0.8 billion, or 4.3% of total consolidated assets. To ensure sound management of structural rate risk, Management also conducts simulation analyses of the variation in net income and common shareholders' equity based on a repricing spread report and various interest rate scenarios over a 24-month period. One of the main simulation exercises consists of subjecting the Bank's balance sheet to a sudden sustained 1% increase in interest rates. For example, at October 31, 2001, for all portfolios, this 1% rate increase would trigger an increase of $14.0 million in net income before taxes over the next 12 months and would reduce the value of common shareholders' equity by $16.9 million.

These results reflect management's efforts to take advantage of short-term and long-term interest rate movements, while maintaining the sensitivity to these fluctuations well within the limits set by the Board.

Foreign exchange risk management The Bank's foreign exchange position is attributable to products and services that the Bank offers its clients in currencies other than Canadian dollars. Therefore, the risk is linked to the possible negative impact of exchange rate variations on the Bank's results and economic value.

Foreign exchange positions may also result from arbitrage activities. Risk control therefore implies that non-covered positions be maintained and managed to take advantage of short-term market fluctuations, hence the setting of global limits, reviewed on an annual basis, specifying the maximum risk the Bank is ready to assume considering its activities. The Value at Risk (VAR) measure is among the controls implemented by the Bank.

Liquidity risk management Liquidity management provides the Bank and its subsidiaries with the assurance that sufficient funds will be available to meet its commitments. Liquidity risk is the risk of loss if the Bank does not have sufficient cash resources, when required, to meet all its cash flow obligations, whether for balance sheet or off-balance sheet instruments. Efficient liquidity management is essential to maintaining market confidence and protecting the Bank's capital. It is an integral part of asset and liability management. The Bank monitors cash resources daily and applies a prudent liquidity management policy that enables it to meet its cash requirements at all times. It pays particular attention to deposit and loan maturities, along with funding availability and demand, while abiding by the imperatives governing it and its subsidiaries.

The Bank strives to maintain a stable volume of base deposits originating from its retail and deposit brokerage clientele, along with the diversification of financing sources (by client, deposit type, market and maturity dates) by means of numerous controls and limits. The use of capital markets, either through the issuance of capital stock or for short-term debt instruments, is a component of financing. In addition, the Bank has taken steps to further diversify its financing sources by undertaking financing operations on the European market. Securitization of assets offers an additional source of financing through the sale of assets.

Moreover, the Bank constantly monitors its operating requirements. In particular, it evaluates and anticipates its commitments, and ensures that a minimum amount of quality liquid assets are immediately available to respond to any eventuality. Scenario-based contingency plans are put in place to provide measures that enable the Bank to fulfil its obligations in the event of a high demand for liquid assets.

Capital management

The capital of the Bank is comprised of common shareholders' equity, retained earnings, preferred shares, subordinated debentures and a non-controlling interest in a subsidiary. The Bank's capital represents an essential factor in assessing the Bank's stability and security in relation to the risks associated with its activities. Capital management contributes to the Bank's profitability, as it is allocated to key sectors for which defined profitability objectives and criteria have been established. The Bank's aim is to maintain an optimal level of capital to support its activities while generating an attractive and competitive return for its shareholders, in relation to industry standards and its specific risk profile. The Bank's policy is to maintain its statutory capital ratios at a level comparable to that of the industry and consistent with regulatory requirements as defined by the Office of the Superintendent of Financial Institutions Canada (OSFI).

Credit risk management

Credit risk is the risk of a financial loss occurring because of the inability or refusal of a counterparty to fully honour the contractual or financial obligations of a balance sheet or off-balance sheet financial instrument. This risk results from being party to a financial operation with a counterparty. The expression "counterparty" encompasses an issuer, a debtor, a borrower, a broker and an underwriter.

Credit risk management is independent of operations, thus protecting the independence and integrity of risk evaluation. The Credit Committee of the Bank's Board of Directors oversees the management of credit risk. It is assisted by an Internal Credit Committee, to which the Credit Department reports. This Committee is responsible for the operational supervision of overall credit risk management.

The credit risk policies adopted by the Bank provide for appropriate risk assessment and the setting of lending rates in consequence. These policies cover the approval of credit applications by the line of authority concerned, attributing risk ratings, managing of impaired loans, establishing of general and specific provisions, pricing based on risk, and an environmental policy. Under the credit limit rules, no commercial loan to a single borrower may exceed $40 million, unless otherwise approved by the Credit Committee of the Board of Directors; in the case of mortgage loans, the Bank limits its new commitments to $20 million per project. More restrictive sublimits apply to some economic sectors. Commitment and sector ceilings have also been established.

The authorization process for counterparties and loans is highly centralized. The Bank uses state-of-the-art software systems to support the decision-making process with regard to applications for personal consumer credit, credit cards and residential mortgage loans.

The Bank ensures a rigorous and systematic follow-up of its loan portfolio both in terms of quality and quantity by applying different mechanisms and policies; this includes systematically reviewing various categories of files, reviewing risk rating updating systems and analysing pricing. Each month, Management reviews impaired loans and follows up on loans where payment is past due by 90 days or more. As well, the collection process is centralized and is based on specialized expertise.

Operating risk management

Operating risk results from insufficiency or failure attributable to procedures, personnel, internal systems or external events.

The operational risk management department strives to support operating risk management: it develops appropriated policies, gathers data on operating losses, assists managers in identifying operating risks and puts in place control measures and procedures.

The first outsourcing risk management policy was adopted by the Board of Directors in 2001.

Philosophy regarding outsourcing risk Owing to its size, the Bank must apply strategies that enable it to remain competitive both in terms of cost and the diversification of products it offers. To this effect, outsourcing is an important strategy. The Bank can choose to outsource activities in which it has not attained the critical level of use, and in which some partners are more efficient and profitable. As part of its outsourcing policy, it ensures that its partners operate according to sound management practices and usually reserves the right to audit these practices.

CONSOLIDATED BALANCE SHEETS

as at October 31 (in thousands of dollars)	**2001**	2000	1999	1998	1997	**Average annual growth 01/97**
ASSETS						
Cash resources						
Cash and deposits with Bank of Canada	$ 70,469	$ 57,600	$ 73,943	$ 58,266	$ 78,454	(2)%
Deposits with other financial institutions	105,441	193,434	39,145	267,818	194,761	(12)
Cheques and other items in transit, net value	8,437	29,177	—	50,461	58,950	(32)
	184,347	280,211	113,088	376,545	332,165	**(11)**
Securities						
Issued or guaranteed by Canada	1,432,946	822,894	996,776	990,883	1,278,363	2
Issued or guaranteed by provinces and municipal corporations	650,685	428,946	802,627	411,194	246,399	21
Other securities	237,630	136,620	136,272	54,537	59,697	32
	2,321,261	1,388,460	1,935,675	1,456,614	1,584,459	**8**
Loans						
Personal	3,501,167	2,833,467	2,390,381	2,124,155	1,874,817	13
Mortgages	7,814,018	6,916,030	6,106,098	6,177,801	6,965,502	2
Commercial and other	2,124,580	1,759,303	1,446,383	1,133,284	996,323	16
Assets purchased under reverse repurchase agreements	649,671	638,400	917,710	1,380,479	1,096,679	(10)
	14,089,436	12,147,200	10,860,572	10,815,719	10,933,321	**5**
Other						
Premises and equipment	178,766	164,914	157,104	146,447	135,914	6
Other assets	922,014	760,533	577,375	507,874	436,261	16
	1,100,780	925,447	734,479	654,321	572,175	**14**
	17,695,824	14,741,318	13,643,814	13,303,199	13,422,120	**6**
LIABILITIES AND SHAREHOLDERS' EQUITY						
Deposits						
Individuals	11,204,100	10,065,632	8,021,908	7,834,960	8,492,088	6
Business and other	3,313,937	2,173,419	2,447,629	2,201,548	1,966,822	11
	14,518,037	12,239,051	10,469,537	10,036,508	10,458,910	**7**
Other						
Cheques and other items in transit, net value	—	—	7,587	—	—	—
Obligations related to assets sold short or under repurchase agreements	877,158	619,264	1,698,612	1,982,546	1,718,643	(13)
Other liabilities	1,078,213	873,998	570,089	510,131	448,955	19
	1,955,371	1,493,262	2,276,288	2,492,677	2,167,598	**(2)**
Subordinated debentures	**400,000**	346,833	284,600	184,600	234,600	11
Non-controlling interest in a subsidiary	**42,683**	—	—	—	—	100
Shareholders' equity						
Capital stock						
Preferred shares	160,400	160,400	160,400	160,400	160,400	—
Common shares	234,240	167,042	167,042	166,811	107,200	17
Retained earnings	385,093	334,730	285,947	262,203	293,412	6
	779,733	662,172	613,389	589,414	561,012	**7**
	$17,695,824	14,741,318	13,643,814	13,303,199	13,422,120	**6 %**

CONSOLIDATED STATEMENTS OF INCOME

for the years ended October 31 (in thousands of dollars, except per share amounts)	**2001**	2000	1999	1998	1997	**Average annual growth 01/97**
Loans	$1,005,061	$ 835,759	$ 696,732	$ 713,074	$ 743,671	6 %
Securities	66,284	70,181	70,673	42,153	34,332	14
Deposits with other financial institutions	8,243	5,712	7,414	6,988	14,382	(11)
Interest income	**1,079,588**	911,652	774,819	762,215	792,385	**6**
Deposits	680,035	605,281	521,736	471,653	491,515	7
Subordinated debentures	34,395	27,475	22,546	21,715	21,714	10
Interest expense	**714,430**	632,756	544,282	493,368	513,229	**7**
Net interest income	**365,158**	278,896	230,537	268,847	279,156	**6**
Provision for credit losses	35,000	25,000	18,700	24,000	30,000	3
	330,158	253,896	211,837	244,847	249,156	**6**
Non-interest income	**265,641**	211,777	212,734	178,825	183,412	**8**
	595,799	465,673	424,571	423,672	432,568	**7**
Salaries and employee benefits	212,878	177,147	162,935	154,350	167,667	5
Premises and equipment	115,829	96,641	90,319	87,452	78,197	8
Restructuring costs	17,540	—	5,500	—	14,500	4
Other	93,710	77,106	83,310	81,574	83,894	2
Non-interest expenses	**439,957**	350,894	342,064	323,376	344,258	**5**
Income before income taxes, non-controlling interest in a subsidiary and goodwill amortization	**155,842**	114,779	82,507	100,296	88,310	**12**
Income taxes	58,972	31,121	24,823	30,523	25,258	18
Net income before non-controlling interest in a subsidiary and goodwill amortization	**96,870**	83,658	57,684	69,773	63,052	**9**
Non-controlling interest in net income of a subsidiary	2,041	—	—	—	—	100
Net income before goodwill amortization	**94,829**	83,658	57,684	69,773	63,052	**9**
Amortization of goodwill, net of income taxes	4,124	1,998	2,014	1,502	3,077	6
Net income	**$ 90,705**	$ 81,660	$ 55,670	$ 68,271	$ 59,975	**9 %**
Dividends on preferred shares and related taxes	$ 13,530	$ 13,932	$ 13,386	$ 13,661	$ 14,068	(1)%
Net income available to common shareholders	**$ 77,175**	$ 67,728	$ 42,284	$ 54,610	$ 45,907	**11 %**
Dividends on common shares	$ 24,098	$ 18,945	$ 18,540	$ 18,048	$ 16,200	8 %
Average number of common shares outstanding (in thousands)	22,710	20,154	20,151	19,322	18,000	5 %
Average fully diluted number of common shares outstanding (in thousands)	22,896	20,224	20,303	19,515	18,170	5 %
Per common share:						
Net income before goodwill amortization						
basic	$ 3.58	$ 3.46	$ 2.20	$ 2.90	$ 2.72	6 %
fully diluted	$ 3.55	$ 3.45	$ 2.18	$ 2.88	$ 2.70	6 %
Net income after goodwill amortization						
basic	$ 3.40	$ 3.36	$ 2.10	$ 2.83	$ 2.55	6 %
fully diluted	$ 3.37	$ 3.35	$ 2.08	$ 2.80	$ 2.53	6 %
Dividends	$ 1.06	$ 0.94	$ 0.92	$ 0.92	$ 0.90	3 %
Book value	$ 27.08	$ 24.90	$ 22.48	$ 21.30	$ 22.26	4 %
Return on common shareholders' equity before goodwill amortization	13.8 %	14.8 %	10.1 %	13.2 %	12.8 %	2 %
(as a percentage of average assets) (on a taxable equivalent basis)[1]						
Net interest income[1]	2.13 %	1.95 %	1.79 %	2.23 %	2.26 %	(1)%
Provision for credit losses	(0.20)	(0.17)	(0.14)	(0.20)	(0.25)	(4)
Non-interest income	1.55	1.47	1.65	1.48	1.48	1
Non-interest expenses[2]	(2.59)	(2.46)	(2.67)	(2.69)	(2.80)	(2)
Income taxes[2]	(0.36)	(0.22)	(0.20)	(0.26)	(0.21)	11
Net income	0.53	0.57	0.43	0.56	0.48	2
Dividends on preferred shares	(0.08)	(0.10)	(0.10)	(0.11)	(0.11)	(6)
Net income attributable to common shareholders	0.45 %	0.47 %	0.33 %	0.45 %	0.37 %	4
Average assets (in millions of dollars)	$17,176.1	$14,376.9	$12,913.6	$12,090.8	$12,403.7	7 %
Number of full-time equivalent employees	3,884	3,481	3,236	3,372	3,384	3 %
Number of branches	230	204	203	204	243	(1)%
Number of automated banking machines	360	315	326	323	295	4 %

[1] To make comparisons more meaningful, net interest income and income taxes have been adjusted to account for the tax benefit related to certain tax-exempt income from Canadian securities.

[2] Including amortization of goodwill.

QUARTERLY HIGHLIGHTS

(in thousands of dollars, except per share amounts)	2001 Quarters ended Oct. 31	July 31	April 30	Jan. 31	2000 Quarters ended Oct. 31	July 31	April 30	Jan. 31
Interest income[1]	$262,348	$272,204	$265,338	$280,625	$251,768	$244,413	$218,290	$198,144
Interest expense	170,775	178,302	176,905	188,448	173,873	168,072	151,363	139,448
Net interest income[1]	**91,573**	**93,902**	**88,433**	**92,177**	77,895	76,341	66,927	58,696
Provision for credit losses	9,500	9,500	8,000	8,000	6,666	6,667	6,667	5,000
	82,073	**84,402**	**80,433**	**84,177**	71,229	69,674	60,260	53,696
Non-interest income	66,336	72,400	58,702	68,203	51,877	51,091	56,962	51,847
Non-interest expenses	109,730	124,492	103,203	102,532	90,893	89,652	88,314	82,035
Income before income taxes, non-controlling interest in a subsidiary and goodwill amortization[1]	**38,679**	**32,310**	**35,932**	**49,848**	32,213	31,113	28,908	23,508
Income taxes[1]	12,734	8,082	12,854	26,229	1,549	11,467	10,797	8,271
Net income before non-controlling interest and goodwill amortization[1]	**25,945**	**24,228**	**23,078**	**23,619**	30,664	19,646	18,111	15,237
Non-controlling interest in net income of a subsidiary	1,377	664	—	—	—	—	—	—
Net income before goodwill amortization	**24,568**	**23,564**	**23,078**	**23,619**	30,664	19,646	18,111	15,237
Amortization of goodwill, net of income taxes	1,030	1,015	1,059	1,020	520	536	607	335
Net income	**$23,538**	**$22,549**	**$22,019**	**$22,599**	$ 30,144	$ 19,110	$ 17,504	$ 14,902
As a percentage of average assets								
Net interest income[1]	2.05 %	2.13 %	2.14 %	2.20 %	2.05 %	2.05 %	1.90 %	1.76 %
Provision for credit losses	0.21 %	0.22 %	0.19 %	0.19 %	0.18 %	0.18 %	0.19 %	0.15 %
Non-interest income	1.48 %	1.65 %	1.42 %	1.63 %	1.37 %	1.37 %	1.61 %	1.55 %
Non-interest expenses[2]	2.48 %	2.86 %	2.53 %	2.49 %	2.41 %	2.43 %	2.52 %	2.47 %
Net income	0.53 %	0.51 %	0.53 %	0.54 %	0.79 %	0.51 %	0.50 %	0.45 %
Net income available to common shareholders	0.45 %	0.44 %	0.46 %	0.46 %	0.70 %	0.42 %	0.40 %	0.34 %
Average assets (in millions of dollars)	$17,738.5	$17,449.9	$16,922.0	$16,585.7	$15,091.8	$14,794.9	$14,351.0	$13,269.3
Return on common shareholders' equity before goodwill amortization	13.6 %	13.4 %	14.0 %	14.0 %	22.1 %	13.6 %	12.9 %	10.3 %
Per common share								
Average number of common shares outstanding (in thousands)	22,817	22,698	22,667	22,656	20,154	20,154	20,154	20,154
Average fully diluted number of common shares outstanding (in thousands)	23,027	22,980	22,917	22,871	20,314	20,256	20,174	20,183
Net income before goodwill amortization – basic	$ 0.92	$ 0.89	$ 0.88	$ 0.89	$ 1.35	$ 0.80	$ 0.73	$ 0.58
Net income before goodwill amortization – fully diluted	$ 0.92	$ 0.88	$ 0.87	$ 0.89	$ 1.33	$ 0.80	$ 0.73	$ 0.58
Net income after goodwill amortization – basic	$ 0.88	$ 0.85	$ 0.83	$ 0.84	$ 1.31	$ 0.78	$ 0.70	$ 0.57
Net income after goodwill amortization – fully diluted	$ 0.87	$ 0.84	$ 0.82	$ 0.84	$ 1.31	$ 0.77	$ 0.70	$ 0.57
Dividends	$ 0.27	$ 0.27	$ 0.27	$ 0.25	$ 0.25	$ 0.23	$ 0.23	$ 0.23
Book value	$ 27.08	$ 26.53	$ 25.98	$ 25.43	$ 24.90	$ 23.83	$ 23.28	$ 22.81
Dividends								
Preferred shares and related taxes	$ 3,533	$ 3,350	$ 3,168	$ 3,479	$ 3,606	$ 3,455	$ 3,404	$ 3,467
Common shares	$ 6,174	$ 6,136	$ 6,122	$ 5,666	$ 5,040	$ 4,635	$ 4,634	$ 4,636
Stock market share price close	**$ 27.41**	**$ 31.80**	**$ 27.40**	**$ 28.80**	$ 24.50	$ 22.65	$ 18.50	$ 16.00
(in millions of dollars)								
Total assets (end of period)	$17,695.8	$17,264.9	$16,665.2	$16,777.7	$14,741.3	$15,208.5	$14,961.4	$13,830.7
Risk-weighted assets	$ 9,445.6	$ 9,257.8	$ 9,218.2	$ 9,172.6	$ 8,346.3	$ 8,524.2	$ 8,477.5	$ 7,622.6
Tier I capital	$ 763.9	$ 746.2	$ 689.3	$ 675.0	$ 642.8	$ 620.7	$ 609.7	$ 605.0
Tier II capital	$ 406.3	$ 380.9	$ 351.1	$ 345.9	$ 302.3	$ 288.9	$ 297.0	$ 281.9
Total capital	**$1,170.2**	**$1,127.1**	**$1,040.4**	**$1,020.9**	$ 945.1	$ 909.6	$ 906.7	$ 886.9
Capital ratios								
Tier I	8.1 %	8.1 %	7.5 %	7.4 %	7.7 %	7.3 %	7.2 %	7.9 %
Total capital	12.4 %	12.2 %	11.3 %	11.1 %	11.3 %	10.7 %	10.7 %	11.6 %
Financial leverage	15.2 X	15.4 X	16.1 X	16.5 X	15.7 X	16.8 X	16.6 X	15.6 X

[1] *On a taxable equivalent basis.*

[2] *Including amortization of goodwill.*

FINANCIAL ○ section

Management's Responsibility for financial information

The consolidated financial statements of Laurentian Bank were prepared by management which is responsible for the integrity and fairness of the data presented. The financial statements were prepared in accordance with Canadian generally accepted accounting principles, including the accounting requirements specified by the Office of the Superintendent of Financial Institutions Canada (OSFI). The financial statements reflect amounts which must, of necessity, be based on the best estimates and judgement of management with appropriate consideration as to materiality. The financial information presented elsewhere in this annual report is consistent with that in the financial statements.

In discharging its responsibility for the fairness and integrity of the financial information and the supporting accounting systems:

- Management maintains the necessary internal control system designed to provide assurance that transactions are properly authorized, assets are safeguarded and proper accounting records are maintained. The controls include quality standards in hiring and training of employees, written policies, authorized limits for managers, procedure manuals, a corporate code of conduct and appropriate management information systems.
- The systems of internal control are further supported by a compliance function, which ensures that the Bank and its employees comply with all financial regulatory requirements, as well as by an integrated risk and operational risk management function that ensures proper risk control, related documentation and the measurement of the financial impact of risks.
- Internal auditors periodically evaluate various aspects of the Bank's operations and make recommendations to management for improvements in controls.

Every year, OSFI makes such examinations and inquiries as deemed necessary to satisfy itself that the Bank is in a sound financial position and that the provisions of the Bank Act as well as the Standards of sound business and financial practices of the Canada Deposit Insurance Corporation are being duly observed.

Ernst & Young LLP, independent auditors, appointed by the shareholders, examine the Bank's consolidated financial statements and their report follows.

The internal auditors, the external auditors and OSFI meet periodically with the Audit Committee, in the presence or absence of management, to discuss all aspects of their duties and matters arising therefrom.

The Board of Directors is responsible for reviewing and approving the Bank's financial information included in the annual report. It oversees the manner in which management discharges its responsibilities for the presentation and preparation of financial statements, maintenance of appropriate internal controls, risk management as well as assessment of significant transactions and related party transactions through its Audit Committee and its Risk Management Committee. Both committees are composed solely of external directors.

- **Henri-Paul Rousseau**
  President and Chief Executive Officer

- **Robert Cardinal**
  Senior Executive Vice-President
  and Chief Financial Officer

Montreal, Canada
December 3, 2001

Auditors' Report to the shareholders of Laurentian Bank

We have audited the consolidated balance sheets of Laurentian Bank as at October 31, 2001 and 2000 and the consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at October 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles, including the accounting requirements specified by the Office of the Superintendent of Financial Institutions Canada.

Ernst & Young LLP
Chartered Accountants

Montreal, Canada
December 3, 2001

CONSOLIDATED BALANCE SHEETS

as at October 31 (in thousands of dollars)	Notes	2001	2000
ASSETS			
Cash resources			
Cash and deposits with Bank of Canada		$ 70,469	$ 57,600
Deposits with other financial institutions			
Interest bearing		93,413	174,248
Non-interest bearing		12,028	19,186
Cheques and other items in transit, net value		8,437	29,177
		184,347	280,211
Securities	3		
Investment account		1,721,115	963,697
Trading account		600,146	424,763
		2,321,261	1,388,460
Loans	4		
Personal		3,501,167	2,833,467
Residential mortgages		6,938,270	5,856,886
Commercial mortgages		875,748	1,059,144
Commercial and other		2,124,580	1,759,303
Assets purchased under reverse repurchase agreements		649,671	638,400
		14,089,436	12,147,200
Other			
Customers' liability under acceptances		336,292	244,586
Premises and equipment	6	178,766	164,914
Other assets	7	585,722	515,947
		1,100,780	925,447
		$17,695,824	$ 14,741,318
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits	8		
Individuals		$ 11,204,100	$ 10,065,632
Business and other		3,313,937	2,173,419
		14,518,037	12,239,051
Other			
Obligations related to assets sold short		669,657	558,482
Obligations related to assets sold under repurchase agreements	20	207,501	60,782
Acceptances		336,292	244,586
Other liabilities	9	741,921	629,412
		1,955,371	1,493,262
Subordinated debentures	10	**400,000**	346,833
Non-controlling interest in a subsidiary	13	**42,683**	—
Shareholders' equity			
Capital stock	11 and 22		
Preferred shares		160,400	160,400
Common shares		234,240	167,042
Retained earnings		385,093	334,730
		779,733	662,172
		$17,695,824	$ 14,741,318

The accompanying notes are an integral part of the consolidated financial statements.

JON K. GRANT
CHAIRMAN OF THE BOARD

HENRI-PAUL ROUSSEAU
PRESIDENT AND CHIEF EXECUTIVE OFFICER

CONSOLIDATED STATEMENTS OF INCOME

for the years ended October 31 (in thousands of dollars, except per share amounts)	Notes	2001	2000
Interest income			
Loans		$ 1,005,061	$ 835,759
Securities		66,284	70,181
Deposits with other financial institutions		8,243	5,712
		1,079,588	911,652
Interest expense			
Deposits		680,035	605,281
Subordinated debentures		34,395	27,475
		714,430	632,756
Net interest income		**365,158**	278,896
Provision for credit losses	4	35,000	25,000
		330,158	253,896
Non-interest income			
Loans and deposits		93,480	69,636
Securitization revenues	5	18,669	22,231
RRSP, RRIF and other self-directed plans		25,750	24,139
Mutual funds revenues		17,945	16,849
Brokerage operations		23,319	23,824
Treasury and financial market operations		48,716	40,505
Insurance products		15,441	4,463
Gain on dilution resulting from initial public offering of a subsidiary	13	12,430	—
Other		9,891	10,130
		265,641	211,777
		595,799	465,673
Non-interest expenses			
Salaries and employee benefits		212,878	177,147
Premises and equipment		115,829	96,641
Restructuring costs	14	17,540	—
Other		93,710	77,106
		439,957	350,894
Income before income taxes, non-controlling interest in a subsidiary and goodwill amortization		**155,842**	114,779
Income taxes	15	58,972	31,121
Net income before non-controlling interest in a subsidiary and goodwill amortization		**96,870**	83,658
Non-controlling interest in net income of a subsidiary	13	2,041	—
Net income before goodwill amortization		**94,829**	83,658
Amortization of goodwill, net of income taxes $1,362 ($435 in 2000)		4,124	1,998
Net income		$ **90,705**	$ 81,660
Preferred share dividends, including applicable income taxes		13,530	13,932
Net income available to common shareholders		$ **77,175**	$ 67,728
Net income per common share before goodwill amortization	16		
basic		$ **3.58**	$ 3.46
fully diluted		$ **3.55**	$ 3.45
Net income per common share after goodwill amortization	16		
basic		$ **3.40**	$ 3.36
fully diluted		$ **3.37**	$ 3.35

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

for the years ended October 31 (in thousands of dollars)	Notes	2001	2000
CAPITAL STOCK	11 and 22		
Preferred shares		**$ 160,400**	$ 160,400
Common shares			
Balance at beginning of year		$ 167,042	$ 167,042
Issued during the year		67,198	—
Balance at end of year		**$ 234,240**	$ 167,042
RETAINED EARNINGS			
Balance at beginning of year		$ 334,730	$ 285,947
Net income		90,705	81,660
Dividends			
Preferred shares, including applicable income taxes		(13,530)	(13,932)
Common shares		(24,098)	(18,945)
Common share issue costs, net of income taxes		(2,714)	—
Balance at end of year		**$ 385,093**	$ 334,730

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

for the years ended October 31
(in thousands of dollars)

	Notes	2001	2000
Cash flows from operating activities			
Net income		$ 90,705	$ 81,660
Adjustments to determine net cash flows from operating activities:			
Provision for credit losses		35,000	25,000
Gains on securitizations	5	(3,350)	—
Net gains on sale of premises and equipment		(557)	(2,229)
Gain on dilution resulting from initial public offering of a subsidiary	13	(12,430)	—
Gain related to reinsurance of a block of credit insurance premiums		(10,940)	—
Net gains on sale of investment securities		(9,527)	(10,810)
Restructuring costs	14	17,540	—
Future income tax expense		34,432	13,148
Non-controlling interest in net income of a subsidiary		2,041	—
Depreciation and amortization		43,092	34,832
Change in trading securities		(175,383)	150,676
Change in accrued interest receivable		5,284	(345)
(Increase) decrease in unrealized gains and amounts receivable on derivative instruments		(12,281)	(25,637)
Change in accrued interest payable		67,598	101,857
Increase (decrease) in unrealized losses and amounts payable on derivative instruments		(14,882)	19,033
Net change in other assets and liabilities		(15,236)	736
		41,106	387,921
Cash flows from financing activities			
Net change in deposits		1,106,083	80,802
Net change in obligations related to assets sold short		111,175	(218,400)
Net change in obligations related to assets sold under repurchase agreements		146,719	(860,948)
Issuance of subordinated debentures		150,000	100,000
Redemption of subordinated debentures		(96,833)	(37,767)
Issuance of common shares, net of issue costs		64,484	—
Issuance of common shares by a subsidiary, net of issue costs		53,072	—
Dividends, including applicable income taxes		(37,628)	(32,877)
		1,497,072	(969,190)
Cash flows from investing activities			
Acquisition of businesses, net of cash and cash equivalents	2	(652,052)	(258,485)
Net change in interest bearing deposits with other financial institutions		80,835	(147,866)
Net change in securities held for investment		(747,891)	684,836
Net change in loans		(683,836)	(1,070,273)
Net change in assets purchased under reverse repurchase agreements		(11,271)	402,718
Proceeds from mortgage loan securitizations		500,781	1,033,551
Acquisitions of premises and equipment, net		(39,773)	(36,368)
		(1,553,207)	608,113
Change in cash and cash equivalents		(15,029)	26,844
Cash and cash equivalents at beginning of year		105,963	79,119
Cash and cash equivalents at end of year		**$ 90,934**	$ 105,963
Cash and cash equivalents are detailed as follows:			
Cash and deposits with Bank of Canada		$ 70,469	$ 57,600
Non-interest bearing deposits with other financial institutions		12,028	19,186
Cheques and other items in transit, net		8,437	29,177
Cash and cash equivalents		**$ 90,934**	$ 105,963
Supplemental disclosure relating to cash flows			
Amount of interest paid during the year		$ 618,425	$ 527,169
Amount of income taxes paid during the year		$ 13,866	$ 24,134

The accompanying notes are an integral part of the consolidated financial statements.

All tabular amounts are in thousands of dollars, unless otherwise indicated.

1 SIGNIFICANT ACCOUNTING POLICIES

Pursuant to the Bank Act, the consolidated financial statements of Laurentian Bank have been prepared by management in accordance with Canadian generally accepted accounting principles, including the accounting requirements specified by the Office of the Superintendent of Financial Institutions Canada. The significant accounting policies followed in the preparation of these consolidated financial statements are summarized below:

a) Use of estimates in the preparation of financial statements

The preparation of the consolidated financial statements of the Bank requires management to make estimates and assumptions, mainly concerning values, which affect reported amounts of assets, liabilities, net income and related disclosures. Actual results could differ from those estimates.

b) Basis of consolidation

The consolidated financial statements include the assets, liabilities and results of operations of all subsidiaries after elimination of intercompany balances and transactions.

Acquisitions are accounted for using the purchase method. The goodwill resulting from acquisitions is amortized on a straight-line basis over periods of up to 15 years. Goodwill is periodically evaluated by reviewing the profitability of the acquired activities. Any permanent impairment in the carrying value of goodwill is written off and included in income.

When the Bank effectively controls a subsidiary but does not hold all common and preferred shares, the non-controlling interest in the net book value of the subsidiary is presented separately from the shareholders' equity on the Bank's consolidated balance sheet. The non-controlling interest in the subsidiary's net income is presented net of income taxes as a separate item on the consolidated statement of income.

The consolidated financial statements include an interest in a joint venture which is recognized using the proportionate consolidation method. Under this approach, the Bank's pro rata share of the assets, liabilities, revenues and expenses are consolidated.

c) Translation of foreign currencies

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the prevailing year-end rates. Income and expenses are translated at the average monthly exchange rates. Gains and losses resulting from the translation of foreign currencies are included in non-interest income.

d) Securities

i) Investment account

Securities purchased with the original intention to hold them to maturity or until market conditions render alternative investments more attractive are included in the investment account. Fixed-term securities are recorded at amortized cost. Other securities are recorded at cost. Gains and losses realized on disposal of securities and write-downs to reflect other than temporary impairments in value are included in non-interest income. Interest income earned, amortization of premiums and discounts as well as dividends received are included in interest income.

Loan substitute securities are included in the investment account. These securities are customer financings that have been structured as after-tax securities rather than conventional loans in order to provide the issuers with a borrowing rate advantage. These securities are recorded on the same basis as loans.

ii) Trading account

Securities purchased for resale over a short period of time are included in the trading account and are recorded at estimated current market value. Obligations related to assets sold short are reported as liabilities and are stated at estimated current market value. Realized and unrealized gains and losses on these securities are included in non-interest income. Interest income earned as well as dividends received are included in interest income.

e) Loans

Loans are stated net of the allowance for credit losses and of any unearned interest.

Loans are classified as impaired when, in management's opinion, there is a reasonable doubt as to the timely collectibility of the principal or interest. However, when payment of principal or interest is 90 days past due, the loans are classified as impaired, unless they are well-secured or in the process of recovery. All loans which are 180 days past due are classified as impaired except when they are guaranteed or insured by a Canadian government (federal or provincial) or a Canadian government agency; such loans are classified as impaired if the loan is in arrears for 365 days.

When loans are classified as impaired, interest is no longer accrued. The carrying amount of these loans are reduced to their estimated realizable value by a total or partial write-off of the loan and/or by establishing a provision for credit losses.

The property rights of assets acquired in settlement of a borrower's loan are also included in impaired loans at the lower of the loan balance and its net realizable value.

Subsequent recoveries of interest on impaired loans are recognized in income only if there is no specific provision and if, in management's opinion, there is no reasonable doubt as to the ultimate collectibility of the total principal.

An impaired loan cannot return to an accrual status unless all principal and interest payments are up-to-date and management has no reasonable doubt as to the recovery of the loan.

Where a portion of a loan is written off and the remaining balance is restructured, the new loan is carried on an accrual basis when there is no longer any reasonable doubt regarding the collectibility of principal and interest, and payments are not 90 days past due.

Commissions and fees related to loans received as interest or related to changes in credit terms are generally recorded in interest income over the term of these loans.

f) Allowance for credit losses

The Bank maintains an account of allowance for credit losses at an amount deemed adequate to absorb probable credit losses of its portfolio; this account is increased by the provision for credit losses charged to income and reduced by write-offs net of recoveries. These provisions are deducted from their respective asset categories.

Specific provisions are established loan by loan to absorb losses on all impaired accounts which have been identified as a result of the Bank's regular review of its commercial and mortgage loan portfolio. These provisions are established by estimating the amounts recoverable in relation to the loan amounts; estimated future cash flows are discounted at the effective interest rate inherent in the loan. When these amounts cannot be reasonably estimated, the fair value of the underlying collateral or the observable market price of the loans are used to establish the provisions. For impaired personal loans, other than credit card balances and investment loans, a provision is established based on the write-off experience on such loans in recent years. For credit card balances, no provision is established; however, when no payment has been received for a period of 180 days, outstanding balances are written off. For impaired investment loans, a specific provision is established on a loan by loan basis at the time of the regular review of the portfolio.

The general provision is established to absorb credit losses attributable to the deterioration of credit quality on aggregate exposure of the main categories of the loan portfolio for which specific provisions cannot yet be determined. A general provision for credit risk is established taking into consideration the historical level of provision for credit losses, the profile of the loan portfolio and various phases of the economic cycle.

Write-offs are recorded after all restructuring or collection activities have taken place and the possibility of further recovery is considered to be remote.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Acceptances

The potential liability under acceptances is reported as a liability in the balance sheet. The recourse against the customer in the case of a call on these commitments is reported as an asset of the same amount. Commissions earned are reported in non-interest income.

h) Assets purchased under reverse repurchase agreements and assets sold under repurchase agreements

The Bank enters into purchases of securities under agreements to resell as well as sales of securities under agreements to repurchase at predetermined prices and dates. These agreements are treated as collateralized lending and borrowing transactions and are carried on the balance sheet at the amounts at which the securities were initially acquired or sold. Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements are reported as interest income and interest expense, respectively.

i) Premises and equipment

Land is carried at cost. Software under development is carried at cost and depreciation is not recorded by the Bank until they are substantially ready for their intended use. Other premises and equipment are recorded at cost less accumulated depreciation and are depreciated over their estimated useful lives based on the following methods and rates:

	Method	Rate
Premises	Declining balance	5 %
Leasehold improvements	Straight-line	Term of lease plus initial renewal option
Equipment and furniture	Declining balance	20 %
Computer equipment	Straight-line or declining balance	10 % to 30 %

j) Mutual fund management contracts

Mutual fund management contracts, which are included in other assets, are amortized on a straight-line basis over periods of up to 10 years.

k) Loan securitization

Since June 1, 2001, the Bank has applied prospectively the new standards of the Canadian Institute of Chartered Accountants with respect to the transfer of receivables set out in Accounting Guideline nº 12.

Based on securitization arrangements, the Bank sells pools of mortgages to special-purpose entities or trusts which issue securities to investors. In connection with these securitization transactions, the Bank retains in some instances interest-only strips, one or more blocks of subordinated securities and management rights. These transactions are accounted for as sales when the Bank is deemed to have surrendered control over these assets and consideration other than beneficial interests in the transferred assets was received by the Bank. When the transfer is considered a sale, the Bank derecognizes all assets sold, recognizes at fair value the assets received and the liabilities incurred in the sale and includes the gain or loss on the sale under non-interest income. Such gain or loss partly depends on the previous book value of the loans that are part of the transfer, broken down between the assets sold and the rights retained based on their fair value at the time of the transfer. To calculate fair values, the Bank estimates the discounted value of future cash flows. These calculations are based on management's best estimates with respect to key assumptions – credit losses, rate of prepayment, excess interest, interest-rate curve and risk-adjusted discount rate.

Under the former standards, these transactions were accounted for as sales when the significant risks and rewards of ownership had been transferred and there was reasonable assurance regarding the measurement of the consideration derived from the sale. Gains on these transactions were recognized provided there was no recourse against the Bank on the transaction. To the extent that there was recourse against the Bank on the transaction, any gain on sale was deferred until the cash was collected and there was no recourse. Losses on these transactions, if any, were recognized immediately.

The net increase in securitization gains following the adoption of the new standards was $3,350,000.

l) Employee future benefits

On November 1, 2000, the Bank applied prospectively the new standards of the Canadian Institute of Chartered Accountants with respect to employee future benefits and this resulted in a transitional obligation in the amount of $17,950,000. The obligation is amortized on a straight-line basis over the expected average remaining service life of active employees that will normally receive benefits under the plans, varying between 10 and 20 years. The expense for the year increased by approximately $3,000,000 as a result of this change.

Pension Plans

The Bank maintains defined benefit pension plans for its employees. One of these pension plans has a defined contribution portion. Funding is provided by both the Bank and the members of the plans. Under the defined benefit plans, retired employees are eligible for benefits, based on length of service and the average salary at retirement.

An actuarial valuation is performed periodically to determine the present value of accrued pension obligations for defined benefit plans based on projected benefits and management's best estimates. The obligation for accrued benefits is valued using market interest rates. Before, the obligation was based on management's best estimates. Pension plan assets are valued according to their fair market value. Before, these assets were valued according to market related value. The pension expense consists of: a) the cost for the current year's service, b) interest expense on the obligation for accrued benefits, c) expected return on plan assets, d) amortization of the transitional obligation, the cost for service in previous years and actuarial gains or losses, e) gains or losses arising from special events, and f) change in the valuation allowance.

The cost for past service resulting from plan changes is amortized on a straight-line basis over the expected average remaining service life of the employee groups covered by the plans. Actuarial gains or losses are amortized when, at the beginning of the year, the unamortized balance of the gain or loss exceeds 10% of the obligation for accrued benefits or the asset value, whichever amount is greater. This excess is amortized on a straight-line basis over the expected average remaining service life of the groups covered by the plans.

On January 1, 2001, the Bank introduced a defined-contribution portion for certain participants. Plan members who were active at this date could elect to remain in the defined-benefit portion or participate in the defined-contribution portion for future years of participation. Members who join the plan after January 1, 2001 are required to take part in the defined-contribution portion. The expense corresponds to the contributions that the Bank is required to make during the year.

Other plans

The Bank also provides certain health care and life insurance benefits for its employees upon retirement. Since November 1, 2000, the cost of these benefits are accumulated during the active career of employees according to accounting policies similar to those applied to defined benefit plans. Previously, the cost of these benefits was charged to income as incurred.

m) Derivative financial instruments

The Bank uses derivatives to manage its exposure to interest rates and currency risks to service the needs of customers and to earn trading income. The most frequently used derivative products are interest rate and currency swaps, future rate agreements, foreign exchange term contracts and options.

Derivative products are valued at prevailing market rates when used in trading activities and the resulting gains and losses are recognized in non-interest income. When derivative products are used to manage the Bank's own exposure, the realized gains and losses are deferred and amortized to net interest income over the life of the hedged items.

n) Income taxes

The Bank uses the liability method of tax allocation and reports, in other assets, the future income tax assets resulting from loss carryforwards and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

o) Statements of cash flows

Cash and cash equivalents comprise cash and deposits with the Bank of Canada, non-interest bearing deposits with other financial institutions and net cheques and other items in transit, which are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

p) Net income per common share

The Canadian Institute of Chartered Accountants issued a new accounting standard for calculating and presenting earnings per share which the Bank adopted as of fiscal 2001. The major change arising from the application of this new standard consists in assuming, at the time of calculating net income per common share on a fully diluted basis, that the proceeds will be used for the purchase of common shares at their average price for the year. The former standard assumed that the proceeds were invested in obtaining a theoretical net income. Under this method, the dilutive impact on net income per common share was not material and therefore not presented. According to the new standard, which was applied retroactively, fully diluted net income per common share amounted to $3.55 in 2001 ($3.45 in 2000) before goodwill amortization and $3.37 in 2001 ($3.35 in 2000) after goodwill amortization.

The Bank calculates net income per common share by dividing net income for the year, after deduction of preferred share dividends, including applicable income taxes, by the weighted average number of common shares outstanding for the year.

Preferred shares of Series 6, 7 and 8 are convertible into common shares. These conversions were not taken into account in the calculation of net income on a fully diluted basis because the Bank may redeem these shares for cash rather than common shares and, based on past experience, the Bank does redeem these shares for cash.

q) Comparative figures

Certain comparative figures were reclassified to conform to the presentation adopted for the current year.

r) Future accounting changes

During the year, the Canadian Institute of Chartered Accountants issued, among others, two new standards: section 1581 "Business Combinations" and section 3062 "Goodwill and Other Intangible Assets".

Under these standards, the purchase method of accounting should be used to account for all business combinations initiated after June 30, 2001, and goodwill should not be subject to amortization but be tested for impairment annually.

With respect to business combinations prior to this date, all goodwill and intangible assets with an indefinite useful life will cease to be amortized no later than the fiscal year starting November 1st, 2002, and will thereafter be tested for impairment annually. Any impairment must be included in opening retained earnings at the initial date of application and subsequently in income. The recommended changes arising from these standards are currently under review to determine their impact on the Bank.

2 ACQUISITIONS

2001 ACQUISITION

Scotiabank branches

On November 1, 2000, the Bank acquired 43 Scotiabank branches in Quebec. The purchase price of $660,923,000 was paid in cash and includes acquisition costs of $605,000. This acquisition was recorded using the purchase method. The earnings of the 43 branches in Quebec acquired from Scotiabank were included in the consolidated statement of income as of the acquisition date.

2000 ACQUISITIONS

Sun Life Trust Company

On March 1, 2000, the Bank acquired all the common shares of the Sun Life Trust Company (B2B Trust since July 1, 2000), a trust company offering financial products and services such as deposits and mortgage loans distributed by independent agents. The purchase price of $161,828,000 was paid in cash and includes acquisition costs of $800,000. This acquisition was recorded using the purchase method. The earnings of the Sun Life Trust Company were included in the consolidated statement of income as of the acquisition date.

Tassé & Associés

On February 1, 2000, the Bank, through its subsidiary Laurentian Bank Securities Inc. (formerly BLC Securities Inc.), acquired all the common shares of Tassé & Associés, a full-service brokerage firm. The purchase price of $11,658,000 was paid in cash and includes acquisition costs of $200,000. This acquisition was recorded using the purchase method. The earnings of Tassé & Associés were included in the consolidated statement of income as of the acquisition date.

ALLOCATION OF THE PURCHASE PRICES

	2001	2000		
	Scotiabank branches	Sun Life Trust Company	Tassé & Associés	Total
Cheques and other items in transit, net value	$ 8,871	$ —	$ —	$ —
Securities	—	261,364	16,123	277,487
Loans	1,782,910	1,677,624	—	1,677,624
Accounts receivable	—	—	62,500	62,500
Future tax assets	22,580	12,984	525	13,509
Other assets	29,523	43,485	505	43,990
Goodwill	43,871	—	5,917	5,917
Bank indebtedness	—	(76,695)	(8,304)	(84,999)
Deposits	(1,172,903)	(1,688,712)	—	(1,688,712)
Other liabilities	(53,929)	(68,222)	(65,608)	(133,830)
Cash paid	**$ 660,923**	$ 161,828	$ 11,658	$ 173,486
Integration costs	$ 22,000	$ 5,455	$ 1,045	$ 6,500
Unused balance as at October 31, 2001	$ 2,100	$ —	$ —	$ —

Integration costs consist mainly of expenses for information technology conversion, severance payments and termination of leases.

3 SECURITIES

a) Maturity schedule at year-end

	Within 1 year	1 to 5 years	Over 5 years	No stated maturity	2001 Total	2000 Total
INVESTMENT ACCOUNT						
Issued or guaranteed						
by Canada	$ 582,867	$ 578,324	$ —	$ —	$ 1,161,191	$ 669,452
by provinces	240,203	102,471	63,718	—	406,392	176,460
Other debt securities	—	31,420	10,891	24,586	66,897	68,226
Preferred shares	—	—	—	33,031	33,031	16,020
Common shares	—	—	—	26,325	26,325	25,442
Mortgage-backed securities	—	7,597	13,214	—	20,811	—
Loan substitutes	—	6,468	—	—	6,468	8,097
	823,070	**726,280**	**87,823**	**83,942**	**1,721,115**	963,697
TRADING ACCOUNT						
Issued or guaranteed						
by Canada	54,924	103,852	112,979	—	271,755	153,442
by provinces	22,006	70,283	115,911	—	208,200	228,136
by municipal corporations	10,917	21,332	3,844	—	36,093	24,350
Other debt securities	7,350	39,829	31,326	—	78,505	17,314
Common shares	—	—	—	40	40	66
Mortgage-backed securities	—	5,553	—	—	5,553	1,455
	95,197	**240,849**	**264,060**	**40**	**600,146**	424,763
	$ 918,267	**$ 967,129**	**$ 351,883**	**$ 83,982**	**$ 2,321,261**	$ 1,388,460

The term to maturity included in the schedule above is based on the contractual maturity date of the security.

b) Investment account – unrealized gains and losses

2001

	Book value	Gross unrealized gains	Gross unrealized losses	Estimated market value
Issued or guaranteed				
by Canada	$ 1,161,191	$ 5,421	$ 2	$ 1,166,610
by provinces	406,392	3,521	1,943	407,970
Other debt securities	66,897	858	7,779	59,976
Preferred shares	33,031	5	1,498	31,538
Common shares	26,325	2	3,495	22,832
Mortgage-backed securities	20,811	—	—	20,811
Loan substitutes	6,468	—	—	6,468
	$ 1,721,115	**$ 9,807**	**$ 14,717**	**$ 1,716,205**

2000

	Book value	Gross unrealized gains	Gross unrealized losses	Estimated market value
Issued or guaranteed				
by Canada	$ 669,452	$ 68	$ 2,714	$ 666,806
by provinces	176,460	9	5,536	170,933
Other debt securities	68,226	166	3,409	64,983
Preferred shares	16,020	4	2,213	13,811
Common shares	25,442	—	2,710	22,732
Mortgage-backed securities	—	—	—	—
Loan substitutes	8,097	—	—	8,097
	$ 963,697	$ 247	$ 16,582	$ 947,362

4 IMPAIRED LOANS AND ALLOWANCE FOR CREDIT LOSSES

a) Impaired loans

2001	Gross amount	Specific provisions	General provision	Net amount
Personal	$ 23,088	$ (6,557)	$ —	$ 16,531
Residential mortgages	21,076	(4,962)	—	16,114
Commercial mortgages	37,213	(15,878)	—	21,335
Commercial and other	78,250	(21,115)	—	57,135
General provision	—	—	(85,000)	(85,000)
	$ 159,627	**$ (48,512)**	**$ (85,000)**	**$ 26,115**

2000	Gross amount	Specific provisions	General provision	Net amount
Personal	$ 13,816	$ (3,905)	$ —	$ 9,911
Residential mortgages	26,582	(4,201)	—	22,381
Commercial mortgages	43,409	(16,396)	—	27,013
Commercial and other	38,278	(11,159)	—	27,119
General provision	—	—	(80,000)	(80,000)
	$ 122,085	$ (35,661)	$ (80,000)	$ 6,424

Impaired loans include foreclosed properties of $59,495,000 in 2001 ($44,552,000 in 2000). Specific provisions related to foreclosed properties were $2,744,000 in 2001 ($2,637,000 in 2000).

b) Allowance for credit losses

	2001	2000
Balance at beginning of year	$ 115,661	$ 106,019
Provision for credit losses charged to the consolidated statement of income	35,000	25,000
Provision for credit losses resulting from acquisitions	5,000	13,866
Write-offs	(25,621)	(33,369)
Recoveries	3,472	4,145
Balance at end of year	**$ 133,512**	$ 115,661

5 LOAN SECURITIZATION

Prior to June 2001, the Bank securitized residential mortgage loans for a total value of $201,481,000 ($1,033,551,000 in 2000). In addition, the Bank has securitized commercial mortgage loans for a total value of $200,192,000 ($0 in 2000). These transactions were recorded using the standards in effect at these dates as described in note 1k). Deferred gains on the sale of these loans totalled $2,009,000 for the year ended October 31, 2001 ($5,074,000 in 2000).

The total principal amount of the securitized loans outstanding recorded under the former standards amounted to $1,814,471,000 at the end of the year ($2,109,554,000 at the end of 2000).

Since June 2001, securitization transactions carried out by the Bank are recorded in accordance with the new standards as described in note 1k). The Bank has since securitized residential mortgages insured under the Canadian Mortgage Bonds Program.

In June and October 2001, the Bank securitized residential mortgages insured by the Canadian Mortgage and Housing Corporation ("CMHC") for a total of $112,507,000 through the creation of mortgage-backed securities. The Bank subsequently sold such mortgage-backed securities in the amount of $104,909,000 in consideration of net cash proceeds totalling $104,425,000; the Bank retains servicing rights functions and subordinated rights in these transactions as well as rights related to excess interest earned on the mortgage loans and the reinvested amounts, which total an estimated $4,942,000. Amortization for the year under these rights amounted to $202,000.

5 LOAN SECURITIZATION (continued)

A total gain on these sales in the amount of $3,350,000 was recorded in non-interest income. The gain arises from the discounted value of all cash flows related to these sales over the life of each securitization transaction, which does not exceed 6 years, including future proceeds and expenses, based on assumptions regarding credit losses, rates of prepayment, excess interest and interest-rate curves.

The gain was adjusted to take into account that interest rates related to reinvested amounts may be lower than anticipated and that prepayments may be higher than anticipated. The fair value of this adjustment will be reviewed on a quarterly basis over the course of each securitization transaction. The key assumptions used for determining the value of transferred or retained rights included an average prepayment rate of 3.5%, an excess spread of between 1.2% and 1.9% and a discount rate between 6.8% and 7.5%. No credit loss is expected since the mortgage loans are insured by CMHC.

The total principal amount of securitized loans under the new standards totalled $110,722,000 at the end of the year.

6 PREMISES AND EQUIPMENT

	2001			2000
	Cost	**Accumulated depreciation**	**Net book value**	Net book value
Land	$ 5,814	$ —	$ 5,814	$ 5,038
Premises	28,995	7,790	21,205	17,973
Leasehold improvements	49,999	28,701	21,298	20,892
Equipment and furniture	74,359	59,165	15,194	13,139
Computer equipment	231,937	128,152	103,785	96,741
Software under development	11,470	—	11,470	11,131
	$ 402,574	**$ 223,808**	**$ 178,766**	$ 164,914

Depreciation expense recorded in the consolidated statements of income amounts to $36,106,000 ($30,899,000 in 2000).

7 OTHER ASSETS

	2001	2000
Future income tax assets (note 15)	$ 126,359	$ 135,793
Assets related to securitized mortgage loans	89,699	94,982
Accrued interest receivable	72,900	72,161
Goodwill	61,689	23,304
Derivative related amounts	57,784	45,503
Accrued benefits assets (note 12)	35,876	27,497
Mutual fund management contracts (note 23)	6,750	8,250
Accounts receivable, prepaid expenses and other items	134,665	108,457
	$ 585,722	$ 515,947

Amortization of mutual fund management contracts and goodwill recorded in the consolidated statements of income amounts to $1,500,000 and $5,486,000 respectively ($1,500,000 and $2,433,000 respectively in 2000).

8 DEPOSITS

	Demand	Notice	Term	Total
				2001
Individuals	$ 92,678	$ 1,608,010	$ 9,503,412	$ 11,204,100
Business and other	517,779	99,887	2,696,271	3,313,937
	$ 610,457	**$ 1,707,897**	**$12,199,683**	**$14,518,037**

	Demand	Notice	Term	Total
				2000
Individuals	$ 87,469	$ 1,324,312	$ 8,653,851	$ 10,065,632
Business and other	363,573	74,385	1,735,461	2,173,419
	$ 451,042	$ 1,398,697	$10,389,312	$12,239,051

Deposits denominated in U.S. dollars amount to $375,135,000 ($404,337,000 in 2000) and deposits denominated in other foreign currencies amount to $39,424,000 ($35,821,000 in 2000).

9 OTHER LIABILITIES

	2001	2000
Accrued interest payable	$ 464,324	$ 373,844
Liabilities related to securitized mortgage loans[1]	116,314	98,678
Derivatives related amounts	41,052	55,934
Accrued benefits obligation (note 12)	8,108	1,532
Accounts payable, accrued expenses and other (note 14)	112,123	99,424
	$ 741,921	$ 629,412

[1] *Includes deferred gains in the amount of $25,645,000 ($35,567,000 in 2000).*

10 SUBORDINATED DEBENTURES

The debentures are direct unsecured obligations of the Bank and are subordinated in right of payment to the claims of depositors and certain other creditors of the Bank. Any repurchase or cancellation of subordinated debentures must be approved by the Office of the Superintendent of Financial Institutions Canada.

Maturity	Series	Interest rate	Special terms	**2001**	2000
July 2001	1	10.25 %	Redeemed in July 2001.	$ —	$ 42,233
October 2001	2	10.75 %	Redeemed in October 2001.	—	25,000
December 2003	4	7.40 %	Redeemed with a premium in August 2001.	—	29,600
June 2009	7	5.75 %	Redeemable as of June 2004; rate to be revised in June 2004 and set at the 90 days Bankers' acceptance rate plus 1%.	100,000	100,000
December 2009	8	7.00 %	Redeemable at par as of December 2004; rate to be revised in December 2004 and set at the 90 days Bankers' acceptance rate plus 1.25%.	100,000	100,000
October 2010	6	8.90 %	Redeemable at par as of October 2005; rate to be revised in October 2005 and set at the 90 days Bankers' acceptance rate plus 1%.	50,000	50,000
June 2011	9	6.50 %	Redeemable at par as of June 2006; rate to be revised in June 2006 and set at the 90 days Bankers' acceptance rate plus 1.25%.	150,000	—
				$ 400,000	$ 346,833

10 SUBORDINATED DEBENTURES (continued)

The maturities of the debentures, assuming the earliest possible dates of repayment under the terms of issue, are as follows:

2004	$ 100,000
2005	150,000
2006	150,000
	$ 400,000

11 CAPITAL STOCK

AUTHORIZED:

Unlimited number of Class A Preferred Shares, without par value, issuable in series.

Unlimited number of Common Shares, without par value.

ISSUED AND OUTSTANDING AS AT OCTOBER 31:

	Number of shares (in units)		Amount	
	2001	2000	**2001**	2000
Class A Preferred Shares (Note 22)				
Series 2	4,000	4,000	$ 400	$ 400
Series 6	2,400,000	2,400,000	60,000	60,000
Series 7	2,000,000	2,000,000	50,000	50,000
Series 8	2,000,000	2,000,000	50,000	50,000
Total preferred shares	**6,404,000**	6,404,000	**160,400**	160,400
Common Shares	**22,867,940**	20,153,744	**234,240**	167,042
Total capital stock			**$ 394,640**	$ 327,442

Preferred shares

The Class A Preferred Shares, Series 2, are entitled to a cumulative dividend at a rate equal to the greater of 7% or 70% of the average daily prime rate and are redeemable at the option of the Bank at a price of $100 per share. The Bank may purchase the shares for cancellation, on the market or by invitation for tender to all holders at a price per share not exceeding the redemption price applicable plus any related fees and commissions.

The Class A Preferred Shares, Series 6, are entitled to a non-cumulative dividend of 8.75%. On or after November 26, 2001, the Bank will be able to redeem these shares at a price of $25 each or to convert them into the number of common shares determined by dividing $25 by the greater of $3 or 95% of the weighted average prevailing market price of the common shares at that date. On or after February 26, 2002, each share will be convertible, at the option of the holder, into the number of common shares determined by dividing $25 by the greater of $3 or 95% of the weighted average prevailing market price of the common shares at that date; this conversion will be subject to the right of the Bank to redeem the shares for cash or to find substitute purchasers.

The Class A Preferred Shares, Series 7 and 8, are entitled to a non-cumulative dividend of 7.75%. On or after June 15, 2003, the Bank will be able to redeem these shares at a price of $25 each plus a premium of $1 which will decrease to zero after June 2005 or to convert them into the number of common shares determined by dividing $25 plus the premium by the greater of $3 or 95% of the weighted average prevailing market price of the common shares at that date. On or after June 15, 2005, each share will be convertible, at the option of the holder, into the number of common shares determined by dividing $25 by the greater of $3 or 95% of the weighted average prevailing market price of the common shares at that date; this conversion will be subject to the right of the Bank to redeem the shares for cash or to find substitute purchasers.

Common shares

During the year, 2,500,000 common shares were issued for a total cash consideration of $63,500,000. As well, 214,196 common shares were issued under the employee share purchase option plan for a total cash consideration of $3,698,000.

(11) CAPITAL STOCK (continued)

Share purchase options

Pursuant to a share purchase option plan, options are granted to key employees for the purchase of common shares at prices not less than the market price of such shares immediately prior to the grant date. The consideration paid by employees when exercising an option is credited to the common stock. There is no compensation expense recognized for the options.

The right to exercise the options is acquired gradually over a maximum period of 5 years and the options can be exercised at all times up to 10 years after they have been granted.

As at October 31, 2001, the Bank had reserved 1,600,000 common shares (1,600,000 common shares in 2000) for the potential exercise of stock options.

The following tables show the Bank's stock options and the number of common shares which may be issued for the years ended October 31:

	2001			2000		
	Number of options (in units)		**Weighted average exercise price per option**	Number of options (in units)		Weighted average exercise price per option
Outstanding, beginning of year	1,236,545	$	22.66	1,158,406	$	22.89
Granted	54,600	$	30.73	85,514	$	19.51
Exercised	(214,196)	$	17.26	—	$	—
Cancelled	(2,596)	$	23.81	(7,375)	$	22.36
Outstanding, end of year	**1,074,353**	$	**24.15**	1,236,545	$	22.66
Exerciseable, end of year	**671,850**	$	**23.50**	617,516	$	20.73

		2001			2000		
	Issue date	**Number of options (in units)**		**Weighted average exercise price per option**	Number of options (in units)		Weighted average exercise price per option
Stock option plan	1992	—	$	—	2,663	$	18.75
	1993	1,542	$	19.00	1,542	$	19.00
	1994	101,678	$	18.25	106,678	$	18.15
	1995	11,488	$	14.78	90,940	$	15.06
	1996	54,077	$	15.85	105,287	$	15.85
	1997	65,294	$	19.79	115,755	$	19.62
	1998	304,907	$	28.68	310,447	$	28.61
	1999	405,595	$	24.32	420,594	$	24.24
	2000	77,172	$	19.52	82,639	$	19.51
	2001	52,600	$	30.95	—	$	—
		1,074,353			1,236,545		

The following table summarizes information relating to stock options outstanding and exerciseable at October 31, 2001.

	Options outstanding				Options exerciseable		
Range of exercise prices	Number of options outstanding	Weighted average remaining contractual life (years)		Weighted average exercise price per option	Number of options exerciseable		Weighted average exercise price per option
$14.40 – $19.94	290,251	4.6	$	18.04	231,344	$	17.69
$21.35 – $25.14	264,501	7.6	$	21.93	129,626	$	21.91
$27.00 – $31.80	519,601	6.8	$	28.70	310,880	$	28.48
	1,074,353				671,850		

11 CAPITAL STOCK (continued)

Shareholder Rights Plan

The Board of Directors of the Bank approved a shareholder rights plan (the "Rights plan") intended to encourage the fair treatment of shareholders in connection with any take-over bid for the Bank. The Rights Plan is subject to shareholder ratification at the annual special meeting of shareholders scheduled for March 21, 2002. The rights issued under the Rights Plan become exerciseable only when a person, including persons related to it, acquires or announces its intention to acquire 20% or more of the Bank's outstanding common shares without complying with the "Permitted Bid" provisions of the Rights Plan or without approval of the Board of Directors of the Bank. Should such an acquisition occur, each right would, upon exercise, entitle a rights holder, other than the acquiring person and persons related to it, to purchase common shares of the Bank at a 50% discount to the market price at the time. Under the Rights Plan, a Permitted Bid is a bid made by means of a take-over bid circular sent to all shareholders of the Bank that is open for not less than 60 days. If at the end of the 60 days at least 50% of the outstanding common shares have been tendered, the offeror may take up and pay for the shares but must extend the bid for a further 10 days to allow other shareholders to tender. In the event of an unfriendly take-over attempt, the rights will cause substantial dilution to the person attempting the take-over.

12 EMPLOYEE FUTURE BENEFITS

The last actuarial valuation was performed as at November 1st, 2001 based on data on the participants as at December 31, 1999 and on the assets of the pension plans drawn from the financial statements as at December 31, 1999. The following table shows the status of the pension plans based on actuarial projections, as at October 31, 2001 in accordance with the new accounting standards and as at October 31, 2000 in accordance with the former accounting standards.

	2001		2000
	Pension plans	**Other plans**	Pension plans
Change in accrued benefit obligation			
Accrued benefit obligation	$ 197,832	$ 15,987	$ 172,020
Service cost	6,474	111	5,125
Interest cost	14,111	1,029	13,171
Benefits paid	(11,178)	(911)	(11,180)
Plan participant contributions	2,870	—	4,062
Accrued benefit obligation at end of year	**$ 210,109**	**$ 16,216**	$ 183,198
Change in adjusted market value of plan assets			
Market value of plan assets	$ 221,834	$ —	$ 194,378
Actual return on plan assets	(21,414)	—	14,579
Company contributions	5,572	—	6,559
Plan participant contributions	2,870	—	4,062
Benefits paid	(10,600)	—	(10,592)
Market value of plan assets at end of year	**$ 198,262**	**$ —**	$ 208,986
Funded status			
Overfunded (underfunded) status at end of year	$ (11,847)	$ (16,216)	$ 25,788
Unrecognized transition obligation	1,639	15,118	—
Unrecognized net actuarial (gain) loss	39,074	—	177
Accrued benefit asset (liability) at end of year	**$ 28,866**	**$ (1,098)**	$ 25,965
Accrued benefit assets at year end	$ 35,876	$ —	$ 27,497
Accrued benefit liabilities at year end	$ 7,010	$ 1,098	$ 1,532
Weighted average assumptions			
Discount rate	7.0 %	7.0 %	7.5 %
Assumed long-term rate of return on plan assets	8.0 %	—	7.5 %
Rate of increase in future compensation	3.5 %	3.5 %	3.0 %

12 EMPLOYEE FUTURE BENEFITS (continued)

For valuation purposes, the hypothetical average annual growth rate of healthcare costs covered for each participant was set at 10% and 3.5% for medical and dental care respectively. Based on the assumption adopted, the rate for medical care would be gradually reduced to 4% over a 10-year period.

	2001		2000
	Pension plans	**Other plans**	Pension plans
Transition obligations as at November 1, 2000	$ 1,963	$ 15,987	$ —
Amortization	(324)	(869)	—
Transition obligations as at October 31, 2001	**$ 1,639**	**$ 15,118**	$ —
Net plan expense components as at October 31			
Service cost	$ 6,474	$ 111	$ 5,125
Interest cost	14,111	1,029	13,171
Expected return on plan assets	(17,660)	—	(14,579)
Amortization of transition obligation	324	869	—
Defined contribution provisions	1,717	—	—
Actuarial gain	—	—	(82)
Other	(81)	—	(13)
Net plan expense	**$ 4,885**	**$ 2,009**	$ 3,622

13 NON-CONTROLLING INTEREST IN A SUBSIDIARY AND GAIN ON DILUTION

On June 27 and July 20, 2001, B2B Trust, a subsidiary of the Bank, completed an initial public offering of 6,394,000 of its common stock in Canada at a price of $9.00 a share for gross proceeds in the amount of $57,546,000 ($53,072,000 net of issue costs). Following the offering, the Bank held approximately 74.3% of the common shares of B2B Trust outstanding and realized a dilution gain of $12,430,000. The gain was not subject to income taxes because B2B Trust issued new treasury shares.

14 RESTRUCTURING COSTS

The consolidated statement of income for 2001 includes a provision for restructuring costs of $17,540,000 ($11,401,000 net of income taxes) for implementing the Bank's strategy. These costs include the write-off of certain assets and the lease terminations, severance payments and other costs. The Bank expects that the restructuring will be completed in 2002.

	Restructuring costs arising during the year	Amount utilized	Balance at end of the year
Write-off of assets and lease terminations	$ 10,620	$ 4,222	$ 6,398
Human resources expenses	3,354	72	3,282
Other costs	3,566	137	3,429
Total restructuring costs	$ 17,540	$ 4,431	$ 13,109

15 INCOME TAXES

Significant components of the Bank's future income tax assets and liabilities are as follows:

	2001	2000
Loss carryforwards	$ 37,973	$ 74,092
Premises and equipment	40,944	44,251
Allowance for credit losses	28,548	32,659
Recoverable minimum tax of financial institutions	17,617	7,346
Intangible assets	11,769	(293)
Other temporary differences	3,580	(6,490)
Deferred charges	(14,072)	(15,772)
Future income tax assets, net	**$ 126,359**	$ 135,793

15 INCOME TAXES (continued)

Significant components of the provision for income taxes are as follows:

	2001	2000
Consolidated statements of income		
Current income tax expense	$ 23,178	$ 13,242
Future income tax expense	20,514	10,880
Tax rate reductions	13,918	6,564
	$ 57,610	$ 30,686
Consolidated statements of changes in shareholders' equity		
Income taxes on preferred dividends	$ 501	$ 904
Current income tax expense	$ 501	$ 5,200
Future income tax benefit	—	(4,296)
	$ 501	$ 904

The reconciliation of income tax computed at the statutory tax rates to income tax expense is:

	2001		2000	
	Amount	**Percent**	Amount	Percent
Income taxes at statutory rate	$ 60,233	40.1 %	$ 46,663	41.3 %
Increase (decrease) resulting from:				
Gain on dilution	(4,960)	(3.3)	—	—
Tax benefits previously not recorded	(4,000)	(2.7)	(31,610)	(28.0)
Tax on earnings and dividends from foreign operations	(5,384)	(3.6)	6,517	5.8
Large Corporations Tax	1,776	1.2	1,894	1.7
Tax rate reductions	13,918	9.3	6,564	5.8
Other, net	(3,973)	(2.7)	658	0.6
Income taxes reported in earnings/ effective tax rate	**$ 57,610**	**38.3 %**	$ 30,686	27.2 %

Income earned on credit insurance from foreign operations will only be taxed upon repatriation to Canada. Since management of the Bank currently does not anticipate repatriating these retained earnings, no future income tax expense was recorded in this regard.

16 NET INCOME PER COMMON SHARE

	2001	2000
Net income per common share		
Net income before goodwill amortization	$ 94,829	$ 83,658
Dividends on preferred shares	13,530	13,932
Net income before goodwill amortization available to common shareholders	81,299	69,726
Goodwill amortization	4,124	1,998
Net income available to common shareholders	**$ 77,175**	$ 67,728
Average number of common shares outstanding	**22,710**	20,154
Basic net income per common share before goodwill amortization	**$ 3.58**	$ 3.46
Basic net income per common share	**$ 3.40**	$ 3.36
Fully diluted net income per common share		
Net income before goodwill amortization available to common shareholders	$ 81,299	$ 69,726
Goodwill amortization	4,124	1,998
Net income available to common shareholders	**$ 77,175**	$ 67,728
Average number of common shares outstanding	22,710	20,154
Stock options	186	70
Average fully diluted number of common shares outstanding	**22,896**	20,224
Fully diluted net income per common share before goodwill amortization	**$ 3.55**	$ 3.45
Fully diluted net income per common share	**$ 3.37**	$ 3.35

(16) NET INCOME PER COMMON SHARE (continued)

A total of 176,600 (760,791 in 2000) share purchase options was not taken into account in the calculation of net income per common share on a fully diluted basis since the average exercise price of these options exceeded the average market value of the Bank's shares during the year.

(17) RELATED PARTY TRANSACTIONS

The Bank provides loans to current and former directors, officers and employees, at different rates and conditions. Interest earned on these loans is recorded under interest income in the consolidated statements of income. The outstanding balance of these loans is as follows:

	2001	2000
Mortgage loans	$ 97,663	$ 111,705
Other loans	11,014	14,629
	$ 108,677	$ 126,334

(18) DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of business, the Bank enters into various outstanding contracts and commitments in order to protect itself against the risk of fluctuations in interest rates and foreign exchange rates and to meet its customers' demands as well as to earn trading income as described below.

The various derivative financial instruments listed in the tables below are defined as follows:

Interest rate swaps involve the exchange of fixed and floating interest payment obligations based on a predetermined notional amount for a specified period of time. Foreign exchange swaps involve the exchange of the principal and fixed and floating interest payments in different currencies. Cross-currency interest rate swaps involve the exchange of both the principal amount and fixed and floating interest payment obligations in two different currencies.

Forward rate agreements are contracts fixing an interest rate to be paid or received, calculated on a notional principal amount with a specified maturity commencing at a specified future date.

Options are agreements between two parties in which the writer of the option grants the buyer the future right, but not the obligation, to buy or to sell, at or by a specified date, a specific amount of a financial instrument at a price agreed upon when the option is arranged. The writer receives a premium for selling this instrument.

Futures are future commitments to purchase or deliver a financial instrument on a specified future date at a specified price. Futures are traded in standardized amounts on organized exchanges and are subject to daily cash margining.

Foreign exchange forward contracts are commitments to purchase or sell foreign currencies for delivery at a specified date in the future at a fixed rate.

The Bank also transacts equity derivatives in order to hedge its index-linked deposits.

18 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

a) Remaining term to maturity

(in millions of dollars)

Notional amount	Within 1 year (2001)	1 to 5 years (2001)	Over 5 years (2001)	Total (2001)	Trading (2001)	Other than trading (2001)	Trading (2000)	Other than trading (2000)
INTEREST RATE CONTRACTS								
OTC contracts								
Swaps	$ 4,575	$ 5,196	$ 175	$ 9,946	$ —	$ 9,946	$ —	$ 5,901
Forward rate agreements	1,468	1,468	—	2,936	—	2,936	—	4,460
Exchange-traded contracts								
Futures	1,950	953	—	2,903	632	2,271	73	61
FOREIGN EXCHANGE CONTRACTS								
OTC contracts								
Foreign exchange swaps	861	12	—	873	873	—	1,069	—
Cross-currency interest rate swaps	118	100	—	218	—	218	—	218
Forwards	445	16	—	461	461	—	372	—
Exchange-traded contracts								
Futures	58	—	—	58	58	—	143	—
OTHER CONTRACTS(1)	1,689	90	—	1,779	—	1,779	—	155
	$ 11,164	**$ 7,835**	**$ 175**	**$ 19,174**	**$ 2,024**	**$ 17,150**	$ 1,657	$ 10,795

(1) Includes over-the-counter equity derivatives, foreign exchange options and over-the-counter interest rate options.

b) Credit exposure

(in millions of dollars)

	Notional amount (2001)	Fair value favorable (2001)	Fair value unfavorable (2001)	Credit equivalent amount (2001)	Risk-weighted amount (2001)	Fair value favorable (2000)	Fair value unfavorable (2000)	Risk-weighted amount (2000)
INTEREST RATE CONTRACTS								
OTC contracts								
Swaps	$ 9,946	$ 170	$ (154)	$ 199	$ 40	$ 10	$ (53)	$ 8
Forward rate agreements	2,936	—	(7)	7	1	1	—	3
Exchange-traded contracts								
Futures	2,903	4	(3)	—	—	—	—	—
FOREIGN EXCHANGE CONTRACTS								
OTC contracts								
Foreign exchange swaps	873	3	(9)	10	2	9	(13)	3
Cross-currency interest rate swaps	218	14	(11)	20	4	6	(14)	3
Forwards	461	10	(1)	16	8	8	(2)	6
Exchange-traded contracts								
Futures	58	1	—	—	—	—	(1)	—
OTHER CONTRACTS(1)	1,779	35	(8)	144	10	60	(12)	14
	$ 19,174	**$ 237**	**$ (193)**	**$ 396**	**$ 65**	$ 94	$ (95)	$ 37

(1) Includes over-the-counter equity derivatives, foreign exchange options and over-the-counter interest rate options.

The majority of the credit concentration of the Bank with respect to derivative financial instruments is with financial institutions, primarily Canadian banks.

18 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Foreign exchange and interest rate related contracts and options are expressed in notional principal amounts upon which the contractual cash flows are based. These notional amounts represent the volume of outstanding transactions and are not indicative of the credit or market risk of these contracts. The fair value may fluctuate as a result of timing of cash flows and changes in interest and foreign exchange rates. The credit risk amount associated with these contracts is limited to the fair value of all non-matured contracts with a favorable fair value for the Bank without taking into account any netting or collateral arrangements that have been made. The credit equivalent amount is the credit risk amount plus an add-on for potential future exposure based on a formula prescribed by the Office of the Superintendent of Financial Institutions Canada in its Capital Adequacy Guidelines. The risk-weighted amount is the credit equivalent amount multiplied by counterparty risk factors prescribed by this guideline. Unrealized gains on trading derivative financial instruments are recorded in other assets and unrealized losses are recorded in other liabilities.

19 FINANCIAL INSTRUMENTS

a) Fair value

The amounts that follow present the fair value of on- and off-balance sheet financial instruments based on the valuation methods and assumptions as set out below.

Fair value represents the amount at which a financial instrument could be exchanged between willing parties. Quoted market prices are not available for a significant portion of the Bank's financial instruments. In such cases, the fair values presented are estimates derived using present value or other valuation techniques and may not be indicative of the net realizable value.

(in millions of dollars)	2001			2000		
	Book value	**Fair value**	**Variance favorable (unfavorable)**	Book value	Fair value	Variance favorable (unfavorable)
Assets						
Securities	$ 2,321	$ 2,316	$ (5)	$ 1,388	$ 1,372	$ (16)
Loans	$ 14,089	$ 14,502	$ 413	$ 12,147	$ 12,121	$ (26)
Liabilities						
Deposits	$ 14,518	$ 14,882	$ (364)	$ 12,239	$ 12,234	$ 5
Subordinated debentures	$ 400	$ 434	$ (34)	$ 347	$ 355	$ (8)
Derivative financial instruments	$ 5	$ 44	$ 39	$ (10)	$ (1)	$ 9

The fair value of items which are short term in nature or contain variable rate features is considered to be equal to book value. These items are not listed above.

The fair value of securities is based on quoted market prices or, if not available, it is estimated using quoted market prices of similar investments.

The fair value of loans, deposits and subordinated debentures is estimated by discounting cash flows using market interest rates.

The fair value of derivative financial instruments is based on quoted market prices or dealer quotes. Otherwise, fair value is estimated on the basis of pricing models, quoted prices of instruments with similar characteristics, or discounted cash flows.

19 FINANCIAL INSTRUMENTS (continued)

b) Interest rate risk

The following table gives the detailed maturity dates and average effective rates of the on- and off-balance sheet instruments of the Bank.

2001

(in millions of dollars)	**Floating**	**0 to 3 months**	**Over 3 months to 1 year**	**Over 1 year to 3 years**	**Over 3 years to 5 years**	**Over 5 years**	**Non-interest sensitive**	**Total**
Assets								
Cash resources and securities	$ 833	$ 458	$ 336	$ 447	$ 282	$ 73	$ 77	$ 2,506
Rate	2.9 %	3.0 %	3.4 %	3.3 %	3.2 %	5.8 %	—	3.1 %
Mortgage loans	573	805	1,476	2,888	1,890	150	32	7,814
Rate	5.6 %	6.6 %	6.4 %	6.6 %	7.6 %	7.5 %	—	6.7 %
Other loans	3,100	1,126	557	1,028	253	134	77	6,275
Rate	6.2 %	4.4 %	7.6 %	7.4 %	8.8 %	7.8 %	—	6.4 %
Other assets	332	188	—	—	—	—	581	1,101
Rate	—	—	—	—	—	—	—	—
Total	**4,838**	**2,577**	**2,369**	**4,363**	**2,425**	**357**	**767**	**17,696**
Rate	**5.1 %**	**4.5 %**	**6.3 %**	**6.5 %**	**7.2 %**	**7.3 %**	**—**	**5.7 %**
Liabilities and equity								
Demand and notice deposits	352	22	65	729	729	—	421	2,318
Rate	1.2 %	0.2 %	0.2 %	0.2 %	0.2 %	—	—	0.3 %
Term deposits	—	2,476	3,846	3,984	1,894	—	—	12,200
Rate	—	3.1 %	4.5 %	4.8 %	6.0 %	—	—	4.5 %
Other liabilities	336	1,086	333	114	28	48	10	1,955
Rate	—	2.0 %	1.4 %	5.1 %	6.0 %	6.6 %	—	1.8 %
Debentures, non-controlling interest and equity	—	60	—	200	150	150	663	1,223
Rate	—	8.8 %	—	7.4 %	7.6 %	6.5 %	—	3.5 %
Total	**688**	**3,644**	**4,244**	**5,027**	**2,801**	**198**	**1,094**	**17,696**
Rate	**0.6 %**	**2.8 %**	**4.2 %**	**4.2 %**	**4.6 %**	**6.5 %**	**—**	**3.6 %**
Swaps, net	—	(1,541)	872	166	478	25	—	—
Other derivative financial instruments	—	189	29	(163)	(98)	43	—	—
Sensitivity gap	**$ 4,150**	**$ (2,419)**	**$ (974)**	**$ (661)**	**$ 4**	**$ 227**	**$ (327)**	**$ —**
Cumulative gap	**$ 4,150**	**$ 1,731**	**$ 757**	**$ 96**	**$ 100**	**$ 327**	**$ —**	**$ —**

2000

(in millions of dollars)	Floating	0 to 3 months	Over 3 months to 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years	Non-interest sensitive	Total
Assets								
Cash resources and securities	$ 506	$ 293	$ 496	$ 96	$ 137	$ 141	$ —	$ 1,669
Rate	5.5 %	5.7 %	5.2 %	5.2 %	1.1 %	5.7 %	—	5.1 %
Mortgage loans	451	845	1,529	2,196	1,647	208	40	6,916
Rate	8.7 %	6.8 %	7.4 %	6.7 %	7.2 %	7.5 %	—	7.1 %
Other loans	3,182	702	414	569	250	94	20	5,231
Rate	8.4 %	7.6 %	9.2 %	9.0 %	7.8 %	8.6 %	—	8.4 %
Other assets	242	156	—	—	165	—	362	925
Rate	—	—	—	—	—	—	—	—
Total	4,381	1 996	2,439	2,861	2,199	443	422	14,741
Rate	7.6 %	6.4 %	7.3 %	7.1 %	6.3 %	7.2 %	—	6.9 %
Liabilities and equity								
Demand and notice deposits	240	29	86	620	875	—	—	1,850
Rate	3.5 %	0.4 %	0.4 %	0.2 %	0.2 %	—	—	0.6 %
Term deposits	201	1,574	3,017	3,591	1,995	11	—	10,389
Rate	6.8 %	4.7 %	5.1 %	5.5 %	6.0 %	6.6 %	—	5.4 %
Other liabilities	246	736	251	64	46	83	67	1,493
Rate	—	4.1 %	0.7 %	6.1 %	6.1 %	6.5 %	—	3.0 %
Debentures and equity	—	—	67	160	280	—	502	1,009
Rate	—	—	10.4 %	—	6.9 %	—	—	2.6 %
Total	687	2,339	3,421	4,435	3,196	94	569	14,741
Rate	3.2 %	4.5 %	4.8 %	4.6 %	4.5 %	6.5 %	—	4.4 %
Swaps, net	25	(2,892)	705	1,461	668	33	—	—
Other derivative financial instruments	—	131	(18)	(49)	(64)	—	—	—
Sensitivity gap	$ 3,719	$ (3,104)	$ (295)	$ (162)	$ (393)	$ 382	$ (147)	$ —
Cumulative gap	$ 3,719	$ 615	$ 320	$ 158	$ (235)	$ 147	$ —	$ —

19 FINANCIAL INSTRUMENTS (continued)

Assets, liabilities and equity are shown at the earlier of the date of maturity or contractual reevaluation while taking into consideration reimbursements or estimated prepayments, except for the following:

- Loans and deposits for which the interest rates are not indexed on a specific rate and which can be non-sensitive to variations of market rates are classified based on the historical evolution of their sensitivity.
- Debentures for which interest rates can be revised at a future date are classified at the reevaluation date; those for which rates cannot be revised are classified at their maturity.
- Preferred shares are classified using the date on which they become redeemable.

c) Concentration of credit risk

Concentration of credit risk exists where a number of borrowers or counterparties engaged in similar activities are located in the same geographic area or have comparable economic characteristics. Their ability to meet contractual obligations may be similarly affected by changing economic, political or other conditions. Management considers the following concentrations to be within acceptable limits.

On-balance sheet assets

Of the total loans outstanding at October 31, 2001, 100% were to borrowers in Canada, with loan concentration in Quebec 51% (44% in 2000), Ontario 32% (39% in 2000) and Western Canada 17% (17% in 2000). No single industry segment accounted for more than 3% of the total loans and customers' liability under acceptances.

20 COMMITMENTS AND CONTINGENCIES

a) Credit-related commitments

The amounts of credit-related commitments represent the maximum amount of additional credit that the Bank could be obliged to extend. These amounts are not necessarily indicative of credit risk as many of these arrangements are contracted for a limited period of usually less than one year and will expire or terminate without being drawn upon.

	2001	2000
Unutilized credit balances	$ 1,392,020	$ 969,690
Guarantees and letters of credit	$ 127,193	$ 98,148

b) Minimum lease commitments

Minimum future rental commitments under long-term leases are as follows:

(in thousands of dollars)	Premises
2002	$ 22,380
2003	19,967
2004	17,345
2005	14,325
2006	11,446
Thereafter	24,426
	$ 109,889

20 COMMITMENTS AND CONTINGENCIES (continued)

c) Minimum important service contracts commitments for information technology services

Minimum future commitments under important service contracts for outsourced information technology services are as follows:

(in thousands of dollars)	Important service contracts for information technology services
2002	$ 33,918
2003	17,881
2004	19,182
2005	19,330
2006	13,382
Thereafter	80,619
	$ 184,312

During the year, the Bank entered into a service contract for information technology services for a ten-year period amounting to approximately $156,015,000 as at October 31, 2001. As at October 31, 2000, the service contract for information technology services amounted to approximately $35,600,000. As defined in the important service contracts for information technology services, the agreement may be terminated by the Bank under certain circumstances.

d) Litigation

The Bank and its subsidiaries are involved in various pending legal actions which arise in the normal course of business. Management considers that the aggregate contingent liability resulting from these actions is not significant.

e) Pledged assets

Securities amounting to $240,676,000 ($369,228,000 in 2000) have been pledged as collateral for various types of funding. In addition, assets of $207,501,000 ($60,782,000 in 2000) have been deposited as collateral in order to participate in clearing and payment systems.

21 SEGMENTED INFORMATION

The Bank offers its services through three business lines: Retail Banking, B2B Trust and Agency Banking and Commercial and Corporate Banking.

The Retail Banking segment covers the full range of savings, investment, financing and transactional products and services as well as trust services.

The B2B Trust and Agency Banking segment distribute self-directed RRSPs, RRIFs and other self-directed plans, investment loans, term deposits and residential mortgages. This business line offers Visa credit card services and insurance products, which are available through our branches.

The Commercial and Corporate Banking segment handles commercial loans of up to $40 million and services include financial engineering and larger financings as part of banking syndicates, as well as commercial mortgage financing, and factoring.

"Other" includes treasury and securitization activities, the subsidiary Laurentian Bank Securities Inc., the Bank's share of the joint venture BLC-Edmond de Rothschild Asset Management Inc. and other activities of the Bank including revenues and expenses that are not attributable to the above-mentioned segments. "Other" also includes special elements.

Results for the Bank's segments are based on internal financial reporting systems and are consistent with those followed in the preparation of the Bank's consolidated financial statements for the year 2001. Transfer pricing regarding the funding of segments' assets and liabilities is based on wholesale market rates best reflecting the nature and maturities of these items. Non-interest expenses are matched against the revenues to which they relate. Indirect costs are allocated to the segments based on appropriate criteria.

21 SEGMENTED INFORMATION (continued)

2001

(in millions of dollars) (on a taxable equivalent basis)[1]	Retail Banking	B2B trust & Agency Banking	Commercial and Corporate Banking	Other[3]	Total
Net interest income	$ 275.6	$ 90.9	$ 60.7	$ (61.1)	$ 366.1
Non-interest income	87.5	32.4	36.3	109.4	265.6
Total revenue	**363.1**	**123.3**	**97.0**	**48.3**	**631.7**
Provision for credit losses	18.0	5.5	10.7	0.8	35.0
Non-interest expenses	291.8	67.2	33.2	53.3	445.5
Net income before income taxes and non-controlling interest in net income of a subsidiary	53.3	50.6	53.1	(5.8)	151.2
Income taxes	23.5	22.6	22.6	(10.2)	58.5
Non-controlling interest in net income of a subsidiary	—	2.0	—	—	2.0
Net income	**$ 29.8**	**$ 26.0**	**$ 30.5**	**$ 4.4**	**$ 90.7**
Average assets[2]	$ 10,476.8	$ 3,907.9	$ 2,837.9	$ (46.5)	$ 17,176.1
Average loans[2]	$ 10,211.7	$ 3,512.1	$ 2,353.8	$ (2,938.3)	$ 13,139.3
Average deposits[2]	$ 7,663.1	$ 4,766.5	$ 23.3	$ 1,629.4	$ 14,082.3
Efficiency ratio[4]	80.4 %	54.5 %	34.2 %	— %	70.5 %

2000

(in millions of dollars) (on a taxable equivalent basis)[1]	Retail Banking	B2B trust & Agency Banking	Commercial and Corporate Banking	Other[3]	Total
Net interest income	$ 202.2	$ 76.3	$ 55.7	$ (54.3)	$ 279.9
Non-interest income	72.7	24.7	27.0	87.4	211.8
Total revenue	274.9	101.0	82.7	33.1	491.7
Provision for credit losses	13.7	2.7	8.6	—	25.0
Non-interest expenses	233.8	54.3	26.4	39.1	353.6
Net income before income taxes	27.4	44.0	47.7	(6.0)	113.1
Income taxes	11.2	19.2	19.3	(18.3)	31.4
Net income	$ 16.2	$ 24.8	$ 28.4	$ 12.3	$ 81.7
Average assets[2]	$ 8,487.4	$ 2,837.0	$ 2,717.2	$ 335.3	$ 14,376.9
Average loans[2]	$ 8,317.9	$ 2,402.1	$ 2,302.3	$ (2,099.7)	$ 10,922.6
Average deposits[2]	$ 6,290.7	$ 3,790.2	$ 61.1	$ 1,446.6	$ 11,588.6
Efficiency ratio[4]	85.0 %	53.8 %	31.9 %	— %	71.9 %

(1) *To make comparisons more meaningful, net interest income and income taxes have been adjusted to account for the tax benefit associated with certain tax-exempt income from Canadian securities.*

(2) *Assets and liabilities are disclosed on an average basis as this measure is most relevant to a financial institution.*

(3) *Comprised of treasury and securitization activities, Laurentian Bank Securities Inc. activities, a wholly owned subsidiary and the Bank's share of the joint venture BLC-Edmond de Rothschild Asset Management Inc. as well as the non-allocated position of head office costs. Also comprised of special elements such as restructuring costs, gain on dilution, gain related to reinsurance of a block of credit insurance premiums and certain elements related to income taxes.*

(4) *Non-interest expenses including amortization of goodwill as a percentage of total revenue.*

22 SUBSEQUENT EVENTS

Issuance of preferred shares

On November 7, 2001, the Bank issued 4,000,000 Preferred Shares Series 9 entitled to a quarterly non-cumulative dividend of $0.375 per share, at a price of $25 per share, representing total proceeds of $100,000,000. On or after December 15, 2006, the Bank will be able to redeem these shares at a price of $25 each plus, if redeemed before December 31, 2010, a premium as well as declared and unpaid dividends up to the redemption date. Moreover, as of December 15, 2006, the Bank will be able to convert all or a portion of these Preferred Series 9 Shares into a number of common shares determined by dividing the then applicable redemption price plus declared and unpaid dividends up to the conversion date, by the greater of $2.50 or 95% of the weighted average price of the common shares during a twenty-days period of negotiation ending on the fourth day preceding the conversion date. The net proceeds to the Bank amounted to $96,650,000 and such proceeds were added to the Bank's general funds and were used to pay the redemption price of the Non-Cumulative Class A Preferred Shares, Series 6, in the amount of $60,000,000 and for general purposes. The purpose of this issue is to enlarge the Bank's tier 1 capital base.

Redemption of preferred shares

On November 26, 2001, the Bank redeemed all its Non-Cumulative Class A Preferred Shares, Series 6. Such preferred shares were redeemed at a price of $25 per share, together with declared and unpaid dividends to the redemption date. The preferred shares so called for redemption ceased from and after the redemption date to be entitled to dividends.

23 REORGANIZATION OF IRIS AND R FUNDS

On October 15, 2001, the Bank announced the reorganization of IRIS Funds and R Funds. The purpose of the agreement is to group under the R Funds banner all funds currently sponsored by Laurentian Bank. The agreement transfers to BLC-Edmond de Rothschild Asset Management Inc., a joint venture of the Bank and Compagnie financière Edmond de Rothschild Banque, the administration of the IRIS Funds. The effective date of the transaction is December 31, 2001. The reorganization will be submitted for approval by regulatory authorities and the unitholders.

Corporate governance

The policies and practices of the Bank's corporate governance are aimed at allowing the Board to benefit from the authority, the autonomy and the information required to assume its responsibilities with regard to Management and shareholders. The corporate governance policies and practices provide for their own regular reviews and assessments by the various Board of Directors' committees.

The Bank's corporate governance practices and policies address the various guidelines of the Toronto Stock Exchange for effective governance. A comparison with these guidelines can be found in the Management Proxy Circular prepared in connection with the Annual Meeting of fiscal 2001.

BOARD COMMITTEES

The Board has established five committees, to which it has delegated particular responsibilities and functions. Their composition takes into account legislative requirements and the nature of their mandate. All of the Board committees are composed primarily of outside directors who are independent of the management of the Bank. They all report in writing to the Board on their work.

The **Executive Committee** exercises the powers conferred on it by the Board of Directors.

This committee consists of six directors:

Henri-Paul Rousseau, Chair
Réjean Gagné, Jon K. Grant, Georges Hébert, Raymond McManus, Pierre Michaud

The **Audit Committee** reviews the annual and quarterly financial statements of the Bank, along with press releases and Management's discussion and analysis of the financial condition and operating results that are part of annual and quarterly financial disclosures, the implementation of appropriate control measures and any financial matters that it deems appropriate or that is referred to it by the Board. It is specifically in charge of supervising the Bank's internal audit function. In discharging their responsibilities, the Committee members meet, together or separately, with the officers and the external auditors to discuss the financial matters within their terms of reference. They also meet annually with the Superintendent of Financial Institutions of Canada or his representative.

This committee consists of six outside directors:

Margot Northey, Chair
Christiane Germain, Jon K. Grant, Veronica S. Maidman, Jacques Perron (2001/10/09), Dominic J. Taddeo

The **Human Resources Committee** reviews and approves senior executive compensation, assesses the performance of the President and Chief Executive Officer and the members of the management and planning committees. It reviews the administration of short-term and long-term incentive programs, approves the annual salary policy, periodically reviews the Bank's organizational structure and approves the appointment of the executive officers. It ensures the succession of senior management, and supervises the collective bargaining process of unionized employees and receives regular reports on relations between the Bank and its employees.

This committee consists of six outside directors:

Pierre Michaud, Chair
Réjean Gagné, Jon K. Grant, Georges Hébert,
Raymond McManus, Alex K. Paterson

The **Nominating and Governance Committee** is in charge of putting in place and monitoring the corporate governance rules. It ensures the proper functioning and the efficiency of the Board and of its committees, and reviews their composition and nominations. It is this committee that proposes the appointment of new directors and evaluates current directors. Among other duties, it reviews the compensation of the directors in relation to their responsibilities, ensures that shareholders are properly informed of the Bank affairs and deals with any major disagreement between the Bank and its shareholders.

This committee consists of six outside directors:

Alex K. Paterson, Chair
Réjean Gagné, Jon K. Grant, Georges Hébert, Raymond McManus,
Pierre Michaud

The **Risk Management Committee** groups together three functions: conduct, credit and oversight. As part of its conduct function, the Committee monitors the application of methods for reviewing transactions with individuals or organizations related to the Bank. It monitors procedures for disclosure of information to customers concerning banking fees and of procedures for examining customer complaints. Annually, it reviews the Code of Ethics governing the Bank's employees and officers. As part of its credit function, the committee reviews the Bank's credit policies and procedures and ensures that the highest standards of quality are maintained. It also approves loans and advances exceeding the limit established by the Board, including loans and advances to employees and officers. Furthermore, in its oversight function, the Committee reviews conflict of interest situations between the Bank and its subsidiaries, along with conflicts concerning any individual that holds a dual position. It also examines the important agreements between the Bank and its subsidiaries.

This committee consists of six outside directors:

Raymond McManus, Chair
Jill Bodkin, Ronald Corey, Alex K. Paterson,
Jacques Perron (2001/10/09), Jonathan Wener

BOARD ◯ of directors

Jill Bodkin (1996)
Vancouver B.C.
Chairman of the Board
GOLDEN HERON ENTERPRISES (3)

Ronald Corey (1994)
Westmount QC
President
RONALD COREY GROUPE CONSEIL LTÉE (3)

L. Denis Desautels (2001/12/04)
Ottawa ON
Executive Director
CENTRE ON GOVERNANCE
UNIVERSITY OF OTTAWA

Réjean Gagné (1980)
Laval-sur-le-Lac QC
Chairman of the Board
and Chief Executive Officer
FAMCORP INC. (1, 4, 5)

Christiane Germain (2001)
Quebec QC
President
GROUPE GERMAIN (2)

Jon K. Grant (1988)
Peterborough ON
Chairman of the Board
CCL INDUSTRIES INC. (1, 2, 4, 5)

Georges Hébert (1990)
Town of Mount-Royal QC
Business consultant (1, 4, 5)

Veronica S. Maidman (2001)
Toronto ON
Chair, Advisory Council,
EQUIFAX CANADA INC. (2)

Raymond McManus (1988)
Baie d'Urfé QC
Chairman of the Board
and Chief Executive Officer
CAFA FINANCIAL CORPORATION (1, 3, 4, 5)

Pierre Michaud (1990)
Montreal QC
Co-Chairman of the Board
RÉNO-DÉPÔT INC.
and Chairman of the Board
PROVIGO INC. (1, 4, 5)

Margot Northey (1999)
Kingston ON
Dean of Queen's School of Business
QUEEN'S UNIVERSITY (2)

Alex K. Paterson (1988)
Westmount QC
Partner
BORDEN LADNER GERVAIS (3, 4, 5)

Jacques Perron (1995-2001/10/09)
Ste-Agathe-des-Monts QC
Corporate Director (2, 3)

Henri-Paul Rousseau (1994)
Outremont QC
President and Chief Executive Officer
LAURENTIAN BANK (1)

Dominic J. Taddeo (1998)
Kirkland QC
President and Chief Executive Officer
MONTREAL PORT AUTHORITY (2)

Jonathan I. Wener (1998)
Hampstead QC
Chairman of the Board
CANDEREL MANAGEMENT INC. (3)

(1) Member of the Executive Committee (2) Member of the Audit Committee (3) Member of the Risk Management Committee
(4) Member of the Human Resources Committee (5) Member of the Nominating and Governance Committee

EXECUTIVE officers

MEMBERS OF THE MANAGEMENT COMMITTEE

Henri-Paul Rousseau
President and Chief Executive Officer, Laurentian Bank
President and Chief Executive Officer, B2B Trust
Vice Chairman and Chief Executive Officer Laurentian Trust of Canada Inc.

Robert Cardinal
Senior Executive Vice-President and Chief Financial Officer

Jacques Daoust
Senior Executive Vice-President, Wealth Management and Brokerage
Chairman and Chief Executive Officer, BLC-Edmond de Rothschild Asset Management Inc.
Chairman of Laurentian Bank Securities Inc.

André Dubuc
Senior Executive Vice-President, Treasury and Capital Markets and Chief Risk Officer

Richard Guay
Senior Executive Vice-President, Retail and Commercial Financial Services
Chairman of the Board, Brome Financial Corporation Inc.
Chairman of the Board, LBC Capital II Inc.
President and Chief Executive Officer, LBC Trust
President, Laurentian Trust of Canada Inc.

Suzanne Masson
Executive Vice-President, Human Resources, Corporate Affairs and Secretary
Secretary, Laurentian Trust of Canada Inc.
Secretary, LBC Trust

Charles Murphy
Executive Vice-President
President and Chief Executive Officer, Laurentian Bank Securities Inc.

Michel Pelletier
Executive Vice-President, Agency Banking, Co-Chief Operating Officer, B2B Trust

V.P. Pham
Executive Vice-President and Chief Information Officer

Bernard Piché
Executive Vice-President, Co-Chief Operating Officer and Chief Financial Officer, B2B Trust

Robert Teasdale
Senior Vice-President, Retail Financial Services, Ontario and Western Canada

MEMBERS OF THE PLANNING COMMITTEE

Marcel Beaulieu
Vice-President, Retail Financial Services, North Shore and West of Quebec Region

Chantal Bélanger
Senior Vice-President, Retail Financial Services, Quebec

Luc Bernard
Senior Vice-President, Marketing, Retail and Commercial Financial Services

André Bolduc (invitee)
Chief Operating Officer and Chief Financial Officer BLC-Edmond de Rothschild Asset Management Inc.

Louise Bourassa
Senior Vice-President, Administrative Services

Denise Brisebois
Vice-President, Human Resources, Retail and Commercial Financial Services

Jean-Guy Calvé
Vice-President and Senior Advisor Audit

François Desjardins
Vice-President, Call Centre and e-Banking Services

Jean-François Doyon
Vice-President, Audit and Security

Philippe Duby
Vice-President, Technology Outsourcing and Project Management

Claude Dulude
Vice-President, Commercial Financial Services, Quebec
President, LBC Capital II Inc.

Richard Fabre
Vice-President, Retail Financial Services, Downtown and South-West Montreal Region

Marco Fortier
Senior Vice-President, e-initiatives

France Gagné
Vice-President, Compensation and Benefits

William Galbraith
Vice-President, Corporate Banking, Ontario and Western Canada Region

Mario Galella
Vice-President, Retail Financial Services, Northern Montreal and West-Island Region

Michel Gendron
Vice-President, Corporate Banking, Quebec Region

Luc Gingras
Vice-President, Retail Financial Services, South of Quebec Region

Ronald Hodges (invitee)
Vice-President, Institutional Alliances and Marketing, B2B Trust

Allan B. Hodgson
Vice-President, Retail Financial Services, Ontario

Paul Hurtubise
Senior Vice-President, Real Estate Financing

Rick C. Lane
Vice-President, Real Estate Financing, Ontario

Richard Leclerc
Senior Vice-President, Client Origination, Retail Financial Services

Jacques Lussier
Vice-President, Retail Financial Services, Quebec and Eastern Quebec Region

Yves Magnan
Senior Vice-President, Taxation

Louis Marquis
Vice-President, Credit

Chris McMillan
Vice-President, Retail Financial Services, Greater Toronto Region

Pierre Minville
Vice-President, Finance and Control, Retail and Commercial Financial Services

Michael Murray
Vice-President, Planning and Investors Relations

Marlène Otis
Vice-President, Commercial Financial Services, Partners Relationships

Marc Paradis
Senior Vice-President and Controller

Lorraine Pilon
Senior Vice-President, Legal Affairs and Compliance, Assistant Secretary
Vice-President, Legal Affairs and Assistant Secretary, Laurentian Trust of Canada Inc.
Secretary, B2B Trust
Secretary, BLC-Edmond de Rothschild Asset Management Inc.

Réjean Robitaille
Senior Vice-President and Treasurer

Claude Sasseville
Vice-President, Retail Financial Services, East of Montreal and Mauricie

André Scott (invitee)
Executive Vice-President, Administration and Customer Service, B2B Trust

Marie-Josée Sigouin
Vice-President, Labour Relations and Human Resources, Head Office

John L. Smith
Senior Vice-President, Commercial Banking

Al Spadaro (invitee)
Vice-President, Financial Advisors, B2B Trust

Jean Patrice Venne
Vice-President, Sales and Marketing, Credit Cards

Rollie Zellmer
Vice-President, Retail Financial Services, Western Canada

Alicia Zemanek
Vice-President, Risk Integration and Operational Risk Management

Offices

AGENCY BANKING

Montreal – Head Office
1981 McGill College Avenue
Suite 1400
425 de Maisonneuve Blvd. W.

Toronto
130 Adelaide Street W.
Suite 400

B2B TRUST

Montreal
1981 McGill College Avenue
Suite 1400
425 de Maisonneuve Blvd.

Toronto – Head Office
130 Adelaide Street W.

BLC – EDMOND DE ROTHSCHILD ASSET MANAGEMENT INC.

Montreal
1981 McGill College Avenue
Mezzanine 255

Toronto
130 Adelaide Street West
Suite 30

Sainte-Foy
2600 Laurier Blvd.
Suite 2200

BROME FINANCIAL CORPORATION INC.

Montreal
500 Sherbrooke Street W.
Suite 400

COMMERCIAL BANKING CENTRES

Burlington
1005 Skyview Drive

Calgary
321 6th Avenue Southwest
Suite 1710

Drummondville
1240 Saint-Joseph Blvd.

Kitchener
10 Duke Street W.

Laval
2525 Daniel-Johnson Blvd.
Suite 545

Longueuil
4 Saint-Charles Street E.

Markham
11 Allstate Parkway
Suite 430

Mississauga
989 Derry Road East

Montreal
1981 McGill College Avenue
Suite 570

Saint-Laurent
867 Décarie Blvd.
Suite 100

Sainte-Foy
2600 Laurier Blvd.
Suite 2210

Toronto
130 Adelaide Street W.

Vancouver
800 West Pender Street
Suite 700

CORPORATE BANKING

Montreal
1981 McGill College Avenue
Suite 1980

Toronto
130 Adelaide Street W.
Suite 200

FOREIGN EXCHANGE OFFICES

Montreal
1981 McGill College Avenue

Toronto
130 Adelaide Street W.
Concourse Level

Vancouver
800 West Pender Street
Suite 700

INTERNATIONAL SERVICES

Toronto
130 Adelaide Street W.
Suite 200

LAURENTIAN BANK SECURITIES INC.

Amos
133 1st Avenue West
Suite 300

Cornwall
1140 Brookdale Avenue

Drummondville
645 St-Laurent Blvd.
Suite 100

Granby
20 Allée du Lac

Kamouraska
622 Elzéar Street

Laval
2525 Daniel-Johnson Blvd.
Suite 500

Montreal
1981 McGill College Avenue
Suite 100

Sainte-Foy
2600 Laurier Blvd.
Suite 2310

Saint-Jean-sur-Richelieu
100 Richelieu Street
Suite 150

Sherbrooke
2637 King Street West
Suite 201

Toronto
130 Adelaide Street West
Mezzanine

LAURENTIAN TRUST OF CANADA INC.

Chicoutimi
1611 Talbot Blvd.

Montreal
425 de Maisonneuve Blvd. W.
6615 Sherbrooke Street E.

Quebec
5401 des Galeries Blvd.
580 Grande-Allée Street E.
Suite 30

Sainte-Foy
2600 Laurier Blvd.
Bureau 25

Trois-Rivières
4450 des Forges Blvd.

LBC CAPITAL II INC.

Montreal
1981 McGill College Avenue
5th Floor

LBC FINANCIAL SERVICES INC.

Montreal
425 de Maisonneuve Blvd. W.
Suite 105

Toronto
130 Adelaide Street W.
Suite 200

LBC TRUST

Montreal
1981 McGill College Avenue
Suite 1400

PRIVATE BANKING

Montreal
1981 McGill College Avenue
Mezzanine 255

Ottawa
325 Dalhousie Street
Suite 600

REAL ESTATE FINANCING

Calgary
321 6th Avenue S. W.
Suite 1710

Kitchener
10 Duke Street W.

Montreal
1401 McGill College Avenue
2nd Floor

Toronto
130 Adelaide Street W.
2nd Floor

Vancouver
800 West Pender Street
Suite 700

SUBSIDIARIES and affiliated companies

as at October 31, 2001

Name	Principal office address	Carrying value of voting shares owned by the Bank[1] ($000)	Percentage of voting shares owned by the Bank
B2B Trust[2]	Toronto, Canada	$ 123,167	74.3 %
Laurentian Trust of Canada Inc.	Montreal, Canada	$ 180,776	100 %
LBC Trust	Toronto, Canada	$ 44,616	100 %
Laurentian Bank Securities Inc.[3]	Montreal, Canada	$ 20,743	100 %
LBC Financial Services Inc.	Montreal, Canada	$ 1,547	100 %
LBC Capital II Inc.	Montreal, Canada	$ 6,001	100 %
BLC-Edmond de Rothschild Asset Management Inc.[4]	Montreal, Canada	$ 9,320	50.1 %
Brome Financial Corporation Inc.	Montreal, Canada	$ 6,037	51 %

(1) The carrying value of voting shares is stated at the Bank's net equity in these investments.

(2) B2B Trust has been a public company since June 20, 2001.

(3) Laurentian Bank Securities (USA) Inc. is a wholly-owned subsidiary of Laurentian Bank Securities Inc.

(4) BLC-Edmond de Rothschild Asset Management inc. is a joint venture.

SHAREHOLDER information

HEAD OFFICE

Tour Banque Laurentienne
1981 McGill College Avenue
Montreal, Quebec H3A 3K3
Telephone: (514) 284-4500 ext. 5996
Fax: (514) 284-3396
Customer Services: 1 800 LBC-1846
LBCXpress Telebanking
Centre: 1 800 LBC-1846
Internet address:
www.laurentianbank.com
Telex: 145069
Swift Code: LBCMCAMM

ANNUAL MEETING

The Annual Meeting of the Shareholders of the Bank will be held Thursday, March 21, 2002, at 9:00 a.m., at the Conference Centre of the Toronto Stock Exchange, 130 King Street West, Toronto, Ontario.

VALUATION DAY PRICE

For capital gains purposes, the market value of Laurentian Bank common shares on Valuation day, December 22, 1971, adjusted for the stock splits of July 1983 and January 1987, was $3.72.

TRANSFER AGENT

Desjardins Trust Inc.
1 Complexe Desjardins
Tour Sud, 14th Floor
P.O. Box 34, Desjardins Station
Montreal, Quebec H5B 1E4

OMBUDSMAN'S OFFICE

Laurentian Bank of Canada
130 Adelaide Street W.
Suite 300
Toronto, Ontario M5H 3P5
1 800 473-4782

Laurentian Bank of Canada
Tour Banque Laurentienne
1981 McGill College Avenue
20th Floor
Montreal, Quebec H3A 3K3
(514) 284-4500 ext. 7545

CHANGE OF ADDRESS AND INQUIRIES

Shareholders should notify the Transfer Agent of a change of address. Inquiries or requests may be directed to the Secretary's Office at Head Office or by calling (514) 284-4500 ext. 7545.

INVESTORS AND ANALYSTS

Investors and analysts may contact the Planning and Investors Relations Department at Head Office by calling (514) 284-4500 ext. 5907.

MEDIA

Journalists may contact the Public Affairs and Communication Division at Head Office by calling (514) 284-4500 ext. 7511.

DIRECT DEPOSIT SERVICE

Shareholders of the Bank may, by advising the Transfer Agent in writing, have their dividends deposited directly into an account held at any financial institution member of the Canadian Payments Association.

STOCK SYMBOL AND DIVIDEND PAYMENT

The common and preferred shares indicated below are listed on the Toronto Stock Exchange	CUSIP Number Stock Symbol	Dividend Record Date*	Dividend Payment Date*
Common shares	51925D 10 6 LB	First business day of: January April July October	First business day of: February May August November
Preferred shares			
Series 7	51925D 70 0 LB.PR.B	**	March 15
Series 8	51925D 80 9 LB.PR.C	**	June 15 September 15 December 15
Series 9	51925D 87 4 LB.PR.D	***	March 15 June 15 September 15 December 15

* *Subject to the approval of the Board of Directors.*
** *On such day (which shall not be more than 50 days preceding the date fixed for payment of such dividend) as may be determined from time to time by the Board of Directors of the Bank.*
*** *On such day (which shall not be more than 30 days preceding the date fixed for payment of such dividend) as may be determined from time to time by the Board of Directors of the Bank.*

This Annual Report was produced
by the Public Affairs and Communications
department of Laurentian Bank.

Vous pouvez recevoir un exemplaire
français de ce rapport annuel en faisant
parvenir votre demande par écrit à :
Banque Laurentienne
Tour Banque Laurentienne
1981, avenue McGill College
20e étage
Montréal (Québec) H3A 3K3

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LAURENTIAN BANK
OF CANADA